

TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1962

No. 23

**PAN AMERICAN WORLD AIRWAYS, INC.,
APPELLANT,**

vs.

UNITED STATES.

No. 47

UNITED STATES, APPELLANT,

vs.

PAN AMERICAN WORLD AIRWAYS, INC., ET AL.

**APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

NO. 23 FILED JULY 24, 1961

NO. 47 FILED DECEMBER 1, 1961

JURISDICTION POSTPONED JANUARY 15, 1962

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1961

No. 257

PAN AMERICAN WORLD AIRWAYS, INC.,
APPELLANT,

vs.

UNITED STATES.

No. 583

UNITED STATES, APPELLANT,

vs.

PAN AMERICAN WORLD AIRWAYS, INC., ET AL.

APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

INDEX

VOLUME III

Original Print

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

243—Minutes of special meeting of the board of directors of Pan American-Grace Airways, Inc. held on July 31, 1944	564	831
244—Letter to W. R. Grace & Company from J. T. Trippe, dated April 3, 1945	572	838
245—Minutes of regular meeting of the board of directors of Pan American-Grace Airways, Inc., held on April 4, 1945	573	840

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

246—Letter to the president of Pan American Airways Corporation from D. S. Iglehart, dated April 10, 1945	586	851
247—Letter to W. R. Grace & Company from J. T. Trippe, dated April 14, 1945	587	852
248—Telephone conversation between Mr. Dean and Mr. Roig on July 11, 1945, as recorded by Howard B. Dean	589	854
249—Letter to Harold J. Roig from Howard B. Dean, dated August 13, 1945	590	855
250—Letter to Howard B. Dean from Harold J. Roig, dated August 27, 1945	592	858
251—Letter to Howard B. Dean from Harold J. Roig, dated January 17, 1946	595	860
252—Letter to Harold J. Roig from Howard B. Dean, dated February 21, 1946	596	861
254—Letter to Howard B. Dean from Harold J. Roig, dated April 11, 1946	599	863
255—Letter to Harold J. Roig from Henry J. Friendly, dated April 15, 1946	601	864
256—Letter to John C. Cooper from Harold J. Roig, dated May 24, 1946, enclosing a memorandum entitled "Pan American-Grace Airways, Inc., notice of special meeting of board of directors, May 28, 1946," dated May 24, 1946, by W. F. Cogswell	603	866
257—Letter to J. T. Trippe from J. P. Grace, Jr., dated May 31, 1946	605	869
258—Memorandum of extracts from minutes of Pan American Airways Corporation, board of directors meeting, June 4, 1946	608	872
259—Minutes of adjourned special meeting of board of directors of Pan American-Grace Airways, Inc. held on June 5, 1946	609	873

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

260—Minutes of an adjourned special meeting of the board of directors of Pan Amer- ican-Grace Airways, Inc. held on June 11, 1946	614	878
261—Minutes of board of directors of Pan American dated July 2, 1946	615	879
262—Excerpts from minutes of meeting of board of directors of W. R. Grace & Company, dated July 3, 1946	618	881
263—Letter to Howard B. Dean from Prescott S. Bush, dated July 8, 1946, and at- tached thereto a memorandum entitled "Subject: P.A.A.-Grace"	619	883
264—Excerpts from minutes of executive com- mittee meetings of Pan American, dated July 9, 1946, July 16, 1946, July 23, 1946, July 30, 1946, and a meeting of the board of directors of Pan Amer- ican, dated August 6, 1946	623	886
265—Extracts from the minutes of Pan Amer- ican Airways, Inc., dated July 30, 1946, and August 6, 1946	625	888
266—Agreement between Pan American Air- ways, Inc. and Pan American-Grace Airways, Inc., dated July 30, 1946 (commonly referred to as the through- flight agreement)	626	889
267—Agreement between W. R. Grace & Com- pany and Pan American Airways Corporation dated July 30, 1946 (commonly referred to as the parent company agreement)	629	892
268—Letter to James M. Landis, Chairman, Civil Aeronautics Board, from Henry J. Friendly, Cahill, Gordon, Bailey & Reissel, and Gerhard A. Gesell, dated August 19, 1946	636	899

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

269—Excerpts from memorandum agreement regarding services rendered and to be rendered to Panagra by the parent com- panies and compensation therefor, dated July 14, 1948, and signed by Harold J. Roig for Panagra, E. Bal- luder for Pan American, and Andrew B. Shea for W. R. Grace & Company	638	901
--	-----	-----

PAN AMERICAN-PANAGRA COMPETITION

270—Letter to R. H. Patchin from Harold J. Roig, dated October 30, 1930	645	906
271—Letter to D. S. Iglehart from Harold J. Roig, dated December 9, 1930	647	907
272—Memorandum entitled "Pan American- Grace Airways," dated March 2, 1931, by Harold J. Roig	648	909
273—Letter to J. D. MacGregor from G. Vidal, dated October 23, 1931	651	911
276—Letter to J. D. MacGregor from H. R. Harris, dated October 27, 1933	656	912
277—Letter to H. R. Harris from J. D. Mac- Gregor, dated November 6, 1933	657	913
278—Letter to J. D. MacGregor from H. R. Harris, dated November 20, 1933	659	914
279—Letter to Harold J. Roig from A. Garni, dated February 22, 1934	660	915
280—Letter to Harold J. Roig from D. S. Igle- hart, dated August 6, 1934	662	917
281—Letter to Harold J. Roig from D. S. Igle- hart, dated August 15, 1934	663	918
282—Memorandum of conversation with J. T. Trippe, September 14, 1934	666	920
284—Letter to A. Garni from D. S. Iglehart, dated March 26, 1935	670	921
286—Letter to A. Garni from Harold J. Roig, dated May 11, 1935	673	922

INDEX

V

Original Print

Record from the United States District Court for the Southern District of New York—Continued
Government's Exhibits—Continued

- | | | |
|--|-----|-----|
| 287—Letter to A. Garni from J. D. MacGregor, dated January 24, 1936 | 679 | 926 |
| 288—Letter to C. V. Whitney from D. S. Izlehart, dated August 4, 1936 | 681 | 927 |
| 289—Pan American intercompany memorandum entitled "BUE Sales Folder," by Ernest L. Foss, dated February 8, 1947 | 681 | 929 |
| 294—Intercompany Pan American memorandum by Amos Hiatt, dated June 19, 1947 | 689 | 930 |
| 295—Pan American intercompany memorandum entitled "Panagra Through Flight Agreement" by R. G. Ferguson, dated June 24, 1947 | 691 | 931 |
| 296—Pan American-Graeco intercompany memorandum addressed to J. T. Shannon from James W. Walker, Jr., dated May 21, 1948 | 693 | 933 |
| 298—Pan American intercompany memorandum entitled "Buenos Aires Sales to the United States," by F. H. Sheldon, dated August 17, 1948 | 695 | 934 |
| 299—Pan American intercompany memorandum entitled "Buenos Aires Sales to the United States," by Mario J. Martinez, dated August 25, 1948 | 696 | 935 |
| 300—Memorandum to A. B. Shea from J. P. Grace, Jr., dated April 22, 1949 | 697 | 936 |
| 301—Pan American intercompany memorandum entitled "MIA-BUE Tourist Fares" by Willis G. Lipscomb, dated May 26, 1949 | 699 | 938 |
| 302—Letter to J. W. Walker, Jr., from Douglas Campbell, dated June 23, 1949 | 700 | 938 |
| 303—Letter to Porter Norris from Juan Homs, Jr., dated September 1, 1949 | 701 | 939 |

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

	Original	Print
304—Pan American intercompany memorandum entitled "Panagra Representation-Buenos Aires," by Porter Norris, dated September 7, 1949	703	942
306—Pan American intercompany memorandum by John E. Muhlfield, dated November 29, 1949	706	943
307—Letter to Douglas Campbell from Andrew B. Shea, dated January 10, 1950	708	945
308—Memorandum to A. B. Shea from J. P. Grace, Jr., dated January 13, 1950	711	947
309—Memorandum to Andrew B. Shea from J. P. Grace, Jr., dated January 18, 1950	713	948
311—Pan American intercompany memorandum entitled "Panagra" by E. Bal-luder, dated July 28, 1950	715	949
313—Memorandum to Andrew B. Shea from J. P. Grace, Jr., dated August 13, 1950	719	951
314—Note to Admiral Towers, by R. W. B., dated January 29, 1951	721	953
316—Memorandum entitled "Report of Call Covering Several Meetings on Pan American Airways," dated March 30, 1951	723	954
317—Pan American intercompany memorandum by Juan Homs, Jr., dated April 4, 1951	724	955
318—Pan American intercompany memorandum entitled "Panagra Promotion" by Porter Norris, dated April 4, 1951	726	957
320—Memorandum to Andrew B. Shea from J. P. Grace, Jr., dated April 28, 1951	729	958
324—Letter to Porter Norris from Juan Homs, Jr., dated May 18, 1951	735	960
325—Memorandum by Howard L. Clark, dated May 25, 1951	737	961

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

325—Pan American intercompany memorandum entitled "Panagra Sales Force," by Erwin Balluder, dated June 26, 1953	740	962
329—Letter to Edward G. Bern from Roger V. Rowe, dated August 13, 1953	741	963
332—Pan American intercompany memorandum entitled "Monthly Sales Report—Buenos Aires, September 1953," by Fred F. Plimpton	745	965

GRACE LINE-PANAGRA COMPETITION

333—Letter to Harold J. Roig from D. S. Iglehart, dated March 13, 1939	747	966
334—Memorandum for Mr. Garni from D. S. Iglehart, dated April 21, 1939	749	968
335—Memorandum to Roig, Patchin and Cogswell from D. S. Iglehart, dated October 15, 1931	751	969
336—Memorandum for Mr. Zalles from W. F. Cogswell, dated March 29, 1932	753	970
337—Letter to G. Vidal from J. D. MacGregor, dated May 17, 1932	754	971
338—Letter to Grace Line, Inc., from W. R. Grace & Co. at Lima, dated January 20, 1933	756	972
339—Letter to J. D. MacGregor from Harold R. Harris, dated February 17, 1933	758	974
340—Letter to J. M. Van Law from J. D. MacGregor, dated March 18, 1933	759	975
341—Memorandum to Mr. Mann from W. F. Cogswell, dated March 21, 1933	761	976
342—Letter to A. Garni from D. S. Iglehart, dated April 26, 1933	762	977
343—Memorandum for Mr. Garni from W. F. Cogswell, dated May 24, 1933	763	978

	Original	Print
Record from the United States District Court for the Southern District of New York—Continued		
Government's Exhibits—Continued		
344—Letter to J. D. MacGregor from T. J. Kirkland, dated September 26, 1933	764	979
345—Letter to H. H. G. Redshaw from A. Garni, dated October 27, 1933	766	981
346—Memorandum by G. P. Smith, dated December 17, 1934	770	983
347—Letter to G. Vidal from H. R. Harris, dated August 26, 1935	771	985
348—Pan American-Grace intercompany memorandum entitled "Platinum Shipments from Buenaventura" by G. P. Smith, dated December 20, 1935	772	986
349—Pan American-Grace intercompany memorandum entitled "Platinum Shipments Buenaventura New York" by G. P. Smith, dated December 27, 1935	773	987
350—Pan American-Grace intercompany memorandum entitled "Platinum Shipments URA/NYK" by G. P. Smith, dated January 4, 1936	775	989
351—Pan American-Grace intercompany memorandum entitled "Platinum Shipments" by G. Vidal, dated January 20, 1936	776	990
352—Pan American-Grace intercompany memorandum entitled "Gold / Platinum Shipments" by G. Vidal, dated February 7, 1936	779	991
353—Letter to J. T. Kirby from Harold J. Roig, dated February 10, 1936	780	992
354—Letter to A. Garni from Manuel Holguin, dated February 22, 1936	783	994
355—Cablegram to A. Garni from Holguin, dated March 4, 1936	785	996
356—Letter to Manuel Holguin from A. Garni, dated March 9, 1936	786	997

INDEX

Record from the United States District Court for the Southern District of New York—Continued Government's Exhibits—Continued

	Original	Print
357—Letter to J. E. Zalles from Manuel Holguin, dated March 9, 1936	787	998
358—Pan American-Grace intercompany memorandum, entitled "Platinum Shipments" by G. P. Smith, dated March 40, 1936	788	999
359—Letter to Manuel Holguin from A. Garni, dated March 21, 1936	790	1001
360—Letter to Panama Agencies Co., agents for Panagra, from G. Vidal, dated March 26, 1936	791	1002
361—Letter to Manuel Holguin from Harold J. Roig, dated March 30, 1936	792	1003
362—Letter to H. R. Harris from A. E. Sinclair, dated June 4, 1936	793	1004
363—Letter to J. D. MacGregor from H. R. Harris, dated July 16, 1936	794	1005
364—Letter to A. E. Sinclair from G. Jimenez Arrarte, dated August 24, 1936	795	1006
365—Letter to G. Vidal from J. D. MacGregor, dated September 19, 1936	798	1009
366—Letter to G. Vidal from J. D. MacGregor, dated October 7, 1936	799	1010
367—Letter to J. D. MacGregor from J. E. Muhlfield, dated April 10, 1937	800	1011
368—Memorandum to J. E. Muhlfield by G. Vidal, entitled "Passenger Tariffs" dated July 19, 1937	801	1012
369—Letter to Panagra, Cristobal, Panagra, Lima, etc., from J. E. Muhlfield, dated August 3, 1937	802	1013
370—Letter to John E. Muhlfield from A. F. Mata, dated August 17, 1937	803	1014
371—Letter to H. R. Harris from J. E. Muhlfield, dated September 17, 1937	804	1016
372—Letter to J. E. Muhlfield from G. Vidal, dated September 24, 1937	807	1019

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

373—Letter to D. S. Iglehart from Harold J. Roig, dated September 28, 1937, enclosing a memorandum entitled "Increase in Rates" by H. J. Roig, dated September 28, 1937	808	1020
374—Letter to A. E. Sinclair from G. Jimenez, dated March 8, 1938	812	1022
375—Letter to J. D. MacGregor from J. E. Muhlfeld, dated April 4, 1938	813	1024
376—Letter to Harold J. Roig from Robert H. Patchin, dated April 20, 1938	815	1025
377—Letter to R. H. Patchin from Harold J. Roig, dated April 27, 1938	816	1026
378—Draft of letter to Pan American Airways Corp. from W. R. Grace & Co., dated July 28, 1941	818	1027
379—Letter to James Wagner from R. C. Lounsbury, dated February 25, 1942	819	1028
380—Letter to H. Helbling from J. E. Muhlfeld, dated March 4, 1942	820	1029
381—Letter to George L. Rihl from S. J. Roll, dated January 12, 1943	821	1030
382—Confidential memorandum from Mr. A. E. Sinclair to Mr. R. Ferguson, dated January 20, 1943	822	1031
383—Letter to Carlos Velarde C. from George G. Mason, dated May 13, 1949	824	1034
384—Pan American-Grace inter-company memorandum to John T. Shannon from John E. Muhlfeld, dated July 7, 1949	825	1035
385—Grace cablegram to W. R. Grace, Lima, dated July 26, 1949	826	1035
386—Letter to J. T. Shannon from G. G. Mason, dated August 21, 1949	828	1037
387—Memorandum to J. W. Starbuck, Jr. from G. F. Sorgatz, Jr., dated January 26, 1951	830	1039

INDEX

xi

Original Print

Record from the United States District Court for the Southern District of New York—Continued Government's Exhibits—Continued

- | | | |
|---|-----|------|
| 388—Letter to John D. J. Moore from Tolbert
A. Rice, dated May 11, 1951 | 831 | 1040 |
| 389—Note to R. G. L. from H. A. B., dated
November 7, 1951 | 832 | 1040 |
| 390—Letter to Fausto Moseoso from P. Gjert-
sen, dated November 16, 1951 | 833 | 1041 |
| 391—Note to Assistant Vice President Traffic/
Sales-C. W. Moore from W. H. R.,
dated November 19, 1951 | 834 | 1042 |
| 392—Pan American inter-company memoran-
dum entitled "Pepsi-Cola Company—
Colon Free Zone," by J. A. Soto, dated
May 27, 1952 | 836 | 1043 |
| 393—Letter to Louis A. Person from R. C.
Lounsbury, dated September 4, 1952 | 838 | 1045 |
| 394—Pan American inter-company memoran-
dum entitled "Monthly sales report—
Buenos Aires, January, 1953," by Fred
F. Plimpton, dated February 11, 1953 | 839 | 1046 |
| 395—Cablegram to Valverde from Harold J.
Roig, dated July 23, 1935 | 841 | 1047 |

GRACE CONTROL

- | | | |
|---|-----|------|
| 400—Memorandum for Patchin and Cogswell,
unsigned, dated April 18, 1929 | 847 | 1048 |
| 401—Letter to J. H. Parmerton from Zalles,
dated June 8, 1929 | 849 | 1050 |
| 402—Letter to L. Valverde from Howard J.
Roig, dated January 30, 1930 | 851 | 1051 |
| 403—Letter to Harold J. Roig from D. S. Igle-
hart, dated March 7, 1930 | 852 | 1052 |
| 404—Letter from H. R. Harris to Pan Amer-
ican-Grace Airways, Inc., dated April
9, 1930 | 855 | 1054 |
| 405—Memorandum dated August 18, 1930, by
H. R. Harris | 856 | 1055 |

	Original	Print
Record from the United States District Court for the Southern District of New York—Continued Government's Exhibits—Continued		
406—Letter to Harold J. Roig from D. S. Iglehart, dated October 10, 1930	858	1057
408—Letter to W. R. Grace & Company, Lima, by Thommen, dated November 27, 1930	860	1058
409—Letter to H. R. Roig from J. J. Heavey, dated July 24, 1931	863	1060
410—Letter to H. R. Harris from J. D. Mac- Gregor, dated May 6, 1932	865	1061
411—Letter to D. S. Iglehart from Harold J. Roig, dated June 15, 1932	867	1063
412—Letter to L. Valverde from Harold J. Roig, dated July 15, 1932	868	1064
413—Letter to Harold J. Roig from Valverde, dated July 30, 1932	869	1065
414—Letter to Harold J. Roig from Valverde, dated August 5, 1932	871	1067
415—Letter to Harold J. Roig from Valverde, dated August 6, 1932	874	1069
416—Letter to A. Garni from Harold J. Roig, dated February 24, 1933	876	1071
417—Letter to Harold J. Roig from A. Garni, dated March 6, 1933	880	1073
418—Letter to A. Garni from Harold J. Roig, dated April 6, 1933	882	1074
419—Letter to Harold J. Roig from A. Garni, dated April 18, 1933	884	1076
420—Letter to H. R. Harris from J. D. Mac- Gregor, dated September 6, 1933	886	1077
421—Letter to J. D. MacGregor from H. R. Harris, dated September 13, 1933	888	1079
422—Letter to J. D. MacGregor from H. R. Harris, dated October 2, 1933, enclos- ing letter to H. R. Harris from T. J. Kirkland, dated September 28, 1933	889	1080
423—Letter to Valverde from A. Garni, dated October 27, 1933	892	1082
424—Letter to A. Garni from Harold J. Roig, dated January 31, 1934	893	1083

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

425—Letter to A. Garai from Harold J. Roig, dated March 9, 1934, enclosing as an attachment a letter to Valverde from A. Garai, dated March 12, 1934	895	1085
426—Letter to Harold J. Roig from A. Garai, dated March 15, 1934	898	1087
427—Letter to John T. Kirby from A. Garai, dated April 3, 1934	899	1088
428—Letter to A. Garai from J. T. Kirby, dated April 23, 1934	900	1089
429—Letter to J. T. Kirby from Harold J. Roig, dated May 3, 1934	902	1090
430—Letter to A. Garai from J. T. Kirby, dated October 24, 1934	903	1091
431—Letter to A. Garai from Harold J. Roig, dated March 30, 1935	905	1093
432—Letter to A. Garai from Harold J. Roig, dated April 6, 1935	907	1094
433—Letter to A. Garai from Harold J. Roig, dated May 28, 1935	909	1095
434—Letter to Harold J. Roig from Andrew B. Shea, dated January 22, 1936	910	1096
435—Letter to Harold J. Roig from J. T. Kirby, dated April 17, 1936	912	1098
436—Letter to Harold J. Roig from R. H. Patchin, dated May 12, 1936	913	1098
437—Letter to Paragra, New York, from H. R. Harris, dated August 29, 1936	914	1099
438—Memorandum to H. J. Roig from R. H. Patchin, dated September 18, 1936	915	1100
439—Memorandum for Mr. Kirby from Doug- las Campbell, dated October 23, 1936	916	1102
440—Memorandum for Mr. Roig from Douglas Campbell, dated December 23, 1936	918	1103
441—Letter to H. J. Roig from Andrew B. Shea, dated December 31, 1936	922	1106

	Original	Print
Record from the United States District Court for the Southern District of New York—Continued		
Government's Exhibits—Continued		
442—Letter to J. D. MacGregor from H. R. Harris, dated March 11, 1937	924	1108
443—Letter to J. D. MacGregor from H. R. Harris, dated April 5, 1937	926	1110
444—Letter to J. E. Muhlfeld from J. D. Mac- Gregor, dated June 23, 1937	927	1111
445—Letter to Harold J. Roig from A. Garni, dated September 29, 1937	928	1112
446—Memorandum entitled "Traffic reorgani- zation and correspondence" by J. E. Muhlfeld, dated December 28, 1937	930	1114
447—Memorandum from D. S. Iglehart, dated February 18, 1938	932	1116
448—Letter to Harold J. Roig from D. S. Igle- hart, dated February 28, 1938	933	1117
449—Memorandum to Mr. Iglehart from R. H. Patchin, dated April 5, 1938	936	1119
450—Letter to H. R. Harris from J. D. Mac- Gregor, dated April 14, 1938	938	1120
451—Letter to Harold J. Roig from A. Garni, dated May 4, 1938	940	1122
452—Memorandum for Roig and Garni from D. S. Iglehart, dated August 10, 1938	942	1124
453—Memorandum to H. R. Harris from G. P. Smith, dated March 8, 1939	943	1124
454—Memorandum entitled "Services rendered Pan American-Grace Airways, Inc. by W. R. Grace & Co." by W. F. Cogswell in late 1939	946	1128
455—Letter to Harold J. Roig from G. Vidal, dated November 7, 1940	951	1131
456—Letter to Harold J. Roig from G. Vidal, dated November 21, 1940	952	1132
457—Letter to D. S. Iglehart from Andrew B. Shea, dated November 26, 1940	953	1134
458—Letter to Harold J. Roig from G. Vidal, dated December 17, 1940	957	1136

INDEX

XV

Record from the United States District Court for the Southern District of New York—Continued Government's Exhibits—Continued

Original Print

- | | | |
|---|------|-------|
| 459—Letter to Harold J. Roig from Douglas Campbell, dated March 17, 1941 | 959 | 1138 |
| 460—Letter to D. S. Iglhart from Andrew B. Shea, dated April 19, 1941 | 962 | 1140 |
| 461—Pan American-Graeco inter-company memorandum entitled "Ticket offices" to C. de Groot from J. E. Muhlfeld, dated May 7, 1941 | 965 | 1143 |
| 462—Letter to Douglas Campbell from Harold J. Roig, dated June 4, 1941 | 967 | 1144 |
| 463—Letter to Harold J. Roig from Douglas Campbell, dated June 9, 1941 | 968 | 1145. |
| 464—Letter to H. J. Roig from T. J. Kirkland, dated February 3, 1942 | 969 | 1146 |
| 465—Letter to A. C. Poole from J. E. Muhlfeld, dated March 13, 1942 | 972 | 1149 |
| 466—Letter to J. E. Muhlfeld from A. C. Poole, dated October 24, 1942 | 973 | 1150 |
| 467—Cablegram to Roig from Garni, dated February 27, 1946 | 987 | 1167 |
| 468—Pan American inter-company memorandum addressed to Trippe, Friendly and Balluder entitled "Pan American-Graeco Airways Operations" by Howard B. Dean, dated May 20, 1946 | 989 | 1169 |
| 471—Letter to J. W. Walker, Jr., from G. Vidal, dated July 23, 1948 | 999 | 1172 |
| 476—Letter to Andrew B. Shea from Harold J. Roig, dated October 29, 1948, and attached thereto memorandum entitled "Agency functions and responsibilities with respect to Panagra," by Harold J. Roig | 1009 | 1174 |
| 477—Memorandum by Howard B. Dean, dated December 2, 1948 | 1013 | 1177 |
| 478—Letter to Ernesto Aranibar from John T. Shannon, dated April 2, 1949 | 1014 | 1179 |

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

479—Letter to D. Campbell from John T. Shannon, dated April 22, 1949	1015	1180
480—Memorandum to Mr. Shea from J. P. Grace, Jr., dated April 27, 1949	1017	1181
481—Letter to J. T. Kirby from Andrew B. Shea, dated August 26, 1949	1019	1182
482—Pan American inter-company memorandum entitled "South America—Passenger Fares" by John E. Muhlfeld, dated March 3, 1950	1022	1184
483—Memorandum to Howard L. Clark by M. Bellefond, dated July 11, 1950	1024	1186
484—Letter to Raul Simon from J. T. Kirby, dated June 27, 1951	1027	1188
485—Memorandum to Andrew B. Shea from J. P. Grace, Jr., dated September 26, 1951	1030	1191
486—Letter to T. F. Williams from J. H. Stebbins, dated November 25, 1952	1031	1191
487—Pan American inter-company memorandum by Juan Homs, Jr., dated February 21, 1953	1032	1192
489—Memorandum by M. J. Martínez, dated March 4, 1953	1035	1194

JOINT OFFICES PUBLICITY

491—Letter to H. R. Harris from J. D. MacGregor, dated September 3, 1930	1037	1195
492—Letter to Pan American Grace Airways, New York, from H. R. Harris, dated September 11, 1930	1038	1196
493—Letter to J. D. MacGregor from Harold R. Harris, dated May 31, 1932	1039	1197
494—Letter to G. Vidal from J. D. MacGregor, dated June 2, 1932	1040	1198
495—Letter to H. R. Harris from J. D. MacGregor, dated July 6, 1932	1042	1199

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

496—Letter to J. D. MacGregor from Harold R. Harris, dated December 8, 1932, enclosing copy of letter to George E. Rihl from Harold R. Harris, dated December 8, 1932	1044	1200
497—Letter to H. R. Harris from J. D. MacGregor, dated December 20, 1932	1047	1204
498—Letter to A. Garni from Harold J. Roig, dated June 8, 1935	1050	1206
503—Pan American Airways system memorandum entitled "Representation of Pan Grace" by C. E. Moore, dated July 21, 1937	1060	1208
504—Letter to D. S. Iglehart from Harold J. Roig, dated October 22, 1937	1061	1209
505—Letter to Harold J. Roig from A. Garni, dated April 18, 1938	1064	1211
506—Letter to Juan Trippe from A. Garni, dated May 3, 1938	1067	1213
507—Memorandum to Mr. Young entitled "B. A. office" by H. J. Roig, dated January 9, 1940	1069	1214
508—Letter to H. J. Roig from T. J. Kirkland, dated June 19, 1942	1071	1216
509—Memorandum to Douglas Campbell from E. Balluder, dated April 15, 1948	1073	1217
510—Letter to J. T. Trippe from R. H. Patchin, dated August 1, 1929	1075	1219
512—Letter to Harold J. Roig from D. S. Iglehart, dated January 18, 1932, enclosing a letter to D. S. Iglehart from J. T. Trippe, dated January 9, 1932	1078	1220
513—Letter to J. D. MacGregor from H. R. Harris, dated January 29, 1934	1081	1222
515—Letter to Iglehart from Helen R. Quilty, enclosing a letter to J. T. Trippe from D. S. Iglehart, dated November 29, 1935, and a letter to J. T. Trippe from A. Garni, dated February 25, 1936	1083	1223

	Original	Print
Record from the United States District Court for the Southern District of New York—Continued		
Government's Exhibits—Continued		
517—Letter to D. S. Iglehart from J. T. Kirby, dated October 31, 1938	1089	1226
519—Letter to V. E. Chenea from H. J. Roig, dated October 24, 1939, enclosing a number of recorded interviews with travel agents in New York City	1092	1227
520—Letter to C. V. Whitney from Harold J. Roig, dated January 24, 1941, enclosing an organizational chart of the Pan American system	1103	1235
522—Memorandum to Evan Young entitled "Publicity-transfer of Mr. Arthur Curtis," by H. J. Roig, dated April 3, 1941	1105	1236
526—Letter to Thomas A. Morgan from D. S. Iglehart, dated May 29, 1942	1109	1237
531—Memorandum to H. J. Roig entitled "Grand tour-joint advertising," by Benjamin H. Oehlert, Jr.	1116	1238
532—Letter to Howard B. Dean from Harold J. Roig, dated June 1, 1948, enclosing a letter to J. T. Shannon from James W. Walker, Jr., dated May 21, 1948, and a memorandum of Benjamin Oehlert's interview with a Pan American counter clerk at the Air Terminal Building in New York City on May 26, 1948	1118	1239
533—Memorandum to J. P. Grace, Jr. from R. E. Montgomery, dated June 2, 1948, enclosing an attachment relative to publicity	1124	1244
534—Memorandum to Shea from J. P. Grace, Jr., dated June 3, 1948	1129	1247
543—Memorandum to B. H. Oehlert, Jr., from R. Matthes, dated July 5, 1950	1149	1251

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

NATIONAL INTERCHANGE

547—Letter to Juan T. Trippe from G. T. Baker, dated December 15, 1948	1159	1254
548—Letter to G. T. Baker from J. T. Trippe, dated January 5, 1949	1160	1255
549—Telegram from J. T. Trippe to G. T. Baker, dated January, 1949	1161	1256
550—Letter to G. T. Baker from Harold J. Roig, dated January 6, 1949	1162	1256
551—Letter to Juan T. Trippe from G. T. Baker, dated January 14, 1949	1163	1258
552—Letter to Harold J. Roig from G. T. Baker, dated January 14, 1949	1165	1259
553—Letter from Howard B. Dean to G. T. Baker, dated January 25, 1949	1166	1261
554—Letter to Howard B. Dean from G. T. Baker, dated February 24, 1949	1167	1262
555—Letter to G. T. Baker from Howard B. Dean, dated February 28, 1949	1168	1263
556—Letter to W. R. Grace & Company from G. T. Baker, dated February 28, 1949	1169	1264
557—Letter to G. T. Baker from J. P. Grace, Jr., dated March 2, 1949	1171	1267
558—Excerpts from the minutes of a special meeting of the board of directors of National Airlines, Inc., March 4, 1949	1172	1267
559—Letter to National Airlines, Inc. from W. F. Cogswell, dated March 29, 1949	1173	1269
560—Memorandum entitled "Memorandum of understanding," dated March 30, 1949, signed by G. T. Baker for National Airlines, Inc., J. P. Grace, Jr. for W. R. Grace & Company, Juan T. Trippe for Pan American Airways, Inc. and Harold J. Roig for Pan American-Grace Airways, Inc.	1174	1269

Original Print

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

561—Minutes of special meeting of board of directors of Pan American Grace Airways, Inc. held on March 31, 1949	1180	1273
562—Unsigned memorandum specifying a series of events relative to National Interchange dating from January 21, 1949, through March 29, 1949	1182	1275
563—Excerpts from meeting of board of directors of W. R. Grace & Company dated March 3, 1949, and April 7, 1949	1184	1277
564—Minutes of adjourned regular meeting of board of directors of Pan American Grace Airways, Inc. held on May 12, 1949	1185	1278
566—Memorandum by Andrew B. Shea dated November 9, 1950	1188	1280
567—Memorandum entitled "Telephone conversation with G. T. Baker—November 13, 1950," dated November 13, 1950, by Andrew B. Shea	1190	1281
568—Memorandum by J. T. Trippe dated December 20, 1950	1191	1281
569—Memorandum entitled "Memorandum of discussions with W. R. Grace & Co. (dictated January 20, 1951)" by Friendly	1192	1283
570—Letter to D. W. Rentzel, Chairman, Civil Aeronautics Board, from Andrew B. Shea, dated January 25, 1951	1202	1293
571—Letter to Peter Grace from J. T. Trippe, dated January 29, 1951	1211	1300
572—Letter to A. B. Shea from Balluder, Friendly, Leslie and Morrison, dated February 5, 1951	1213	1302
573—Letter to Erwin Balluder from Andrew B. Shea, dated February 9, 1951	1216	1304
575—Letter to Civil Aeronautics Board from E. Balluder, dated February 21, 1951	1224	1308

Record from the United States District Court for
the Southern District of New York—Continued
Government's Exhibits—Continued

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|---|------|------|
| 576—Letter to James W. Walker, Jr. from
Andrew B. Shea, dated March 22, 1951 | 1226 | 1310 |
| 577—Minutes of adjourned regular meeting of
the board of directors of Pan Amer-
ican-Grace Airways, Inc., held on
March 30, 1951 | 1229 | 1312 |
| 578—Cable to J. T. Kirby from H. L. Clark,
dated April 13, 1951 | 1236 | 1318 |
| 579—Minutes of annual meeting of board of
directors of Pan American-Grace Air-
ways, Inc. held on May 10, 1951 | 1238 | 1320 |
| 580—Letter to President, Pan American World
Airways, Inc., from Andrew B. Shea,
dated May 11, 1951 | 1242 | 1323 |
| 581—Pan American inter-company memoran-
dum entitled "Presidency of Panagra,"
by Henry J. Friendly, dated May 11,
1951 | 1244 | 1324 |
| 582—Letter to Civil Aeronautics Board from
J. T. Trippe, dated May 29, 1951 | 1245 | 1325 |
| 583—A letter to the President of Pan Amer-
ican-Grace Airways, Inc. from J. T.
Trippe, dated May 29, 1951 | 1247 | 1327 |
| 584—Letter to Civil Aeronautics Board from
John T. Cahill, dated June 6, 1951 | 1249 | 1330 |
| 585—Letter to J. S. Phipps from W. G. Hol-
loway, dated June 21, 1951 | 1250 | 1331 |

[fol. 564]

GOVERNMENT'S EXHIBIT 243

Minutes of Special Meeting of the
Board of Directors of Pan American-
Grace Airways, Inc. held at the office
of Pan American Airways, Inc., 135
East 42nd Street, New York, N.Y.
on the 31st day of July, 1944 at
3:00 o'clock in the afternoon.

PRESENT:

Messrs Erwin Balluder	A Garni
W F Cogswell	H P Morris
Howard B Dean	R H Patchin
H J Friendly	H J Roig

being all the members of the Board.

There was also present Mr Tweed, Counsel for the company in Docket No. 525.

Mr H J Roig, President of the corporation, presided. Mr W F Cogswell, Secretary, acted as Secretary of the meeting.

The Secretary presented Call of the Meeting dated July 28, 1944 and the notice of the meeting, together with affidavit of mailing thereof on July 28, 1944 to all of the directors of the corporation.

At Mr Dean's request, Mr Roig summarized briefly our proposed presentation in Docket No. 525 and answered inquiries in respect thereto. Mr Dean voiced the regret of Pan American Airways that Mr Roig had not seen fit to adopt Pan American's suggestion as to the use of DC-7 equipment which Mr Dean believed to be more economical and to permit a greater reduction in passenger fares, and also that the presentation was not to include a more definite statement as to such a reduction.

Mr Dean stated that it was well known to the directors that Pan American Airways had long entertained the view that the operation of equipment through the Canal Zone under an appropriate equipment interchange agreement between Pan American Airways and Pan American-Grace Airways would be in the public interest and in the interest

GR-9409
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[fol. 565] of Pan American-Grace Airways. He said that it was unnecessary to recall all of the various proposals for such an interchange which the representatives of Pan American Airways had made and the representatives of W R Grace & Co had rejected over the years, since these were a matter of record and he had no intention of engaging in controversy as to the merits or demerits of any of these past proposals.

Mr Dean said that in Pan American's opinion the pendency of the *Latin American Certificate case* (Docket No. 525 et al.) made it of the utmost importance that arrangements for such an interchange of equipment should be made, at least in principle. This would enable Pan American-Grace Airways to represent to the Civil Aeronautics Board that it was in a position to offer through plane service between the continental United States and points on the west coast of South America and Buenos Aires. He stated that in order that the management of Pan American-Grace Airways might have ample time to consider this matter, he had brought it up as early as February 4, 1944. In the interval since that date a considerable number of letters had been exchanged and conferences held. It appeared to Mr Dean, from the remarks made by Mr Roig at a conference held on July 11, that Mr Roig also considered that such an equipment interchange agreement would be in the interests of the traveling public, particularly in avoiding the danger of missed connections and change of plane at the Canal Zone, and that such an arrangement might also result in equipment economies for Pan American-Grace Airways. However, these discussions had had no result, and had culminated in a letter from

Mr Roig dated July 25, which in Mr Dean's judgment simply evaded the issue and ended with a statement that Mr Roig and Mr Tweed did not feel that Pan American-GR-9410' G051462

[fol. 566] Grace's interest would be served by further discussion of the subject at this time. Mr Dean said that in his opinion this was a matter which neither Mr Roig nor Mr Tweed had authority to decide for the company and that he had therefore requested this meeting.

Mr Dean stated that he was authorized on behalf of Pan American Airways, Inc., to enter into and conclude with Pan American Grace Airways arrangements for the interchange of four-engined equipment at the Canal Zone, subject to approval by the Civil Aeronautics Board. Mr Dean stated that while Pan American had considered that the large carrying capacity and low passenger mile cost of the DC-7 made it the ideal plane for operation both on Pan American's express service between Miami and the Canal and on Pan American-Grace's express services south of the Canal, Pan American was entirely willing to discuss the interchange of any other type of four-engined equipment. Mr Dean stated that Pan American hoped that a similar interchange agreement might eventually be concluded with the domestic airlines operating from the gateways but that the fact that discussion of such an agreement at a time when these airlines themselves hoped to extend their lines into Latin America would hardly be profitable was no reason why Pan American and Pan American-Grace should not unite in doing what could now be done, namely, conclude an interchange agreement at the Canal.

Mr Dean said that the advantages to Pan American-Grace Airways of an equipment interchange agreement with Pan American Airways along the lines of the United Air Lines-Western Air agreement seemed to Pan American to be evident. He said that he had heard of no argu-GR-9411 G051463

[fol. 567] ments to the contrary, but that if there were any reasons making such an interchange agreement undesirable from the standpoint of Pan American-Grace Airways, he wished that the Grace directors would state them

so that the Pan American directors should be able to consider them.

Mr Dean thereupon made the following motion:

WHEREAS, Pan American Airways Corporation believes that it is in the interest of the traveling public, in the public interest, and in the interest of Pan American-Grace Airways, that an agreement be entered into by Pan American-Grace Airways, Inc. with Pan American Airways, Inc., the holder of certificates for operation between the United States and the Canal Zone, for the interchange of four-engined equipment at the Canal Zone which would permit the through operation of four-engined equipment between a point or points in the continental United States and points on the routes of Pan American-Grace Airways, such agreement to be substantially along the lines of the agreement between United Air Lines and Western Air Express, approved by the Civil Aeronautics Board in said Board's Docket No. 215; and

WHEREAS, Pan American Airways, Inc. has proposed the making of such an interchange agreement with respect to DC-7 aircraft, or if Pan American-Grace Airways is of the opinion that the utilization by it of equipment of such size is not presently warranted, then with such other type of four-engined equipment as may be presently agreed upon by the appropriate officers of the respective companies; and

WHEREAS, Pan American Airways Corporation, as owner of 50% of the stock of Pan American-Grace Airways, considers that the conclusion of such an arrangement would enable Pan American-Grace Airways more effectively to perform its duties as "a connecting carrier as to through traffic between the United States and South America" as set forth in the opinion of the Civil Aeronautics Board in said Board's Docket No. 779; and

WHEREAS, Pan American Airways Corporation, considers that it will be seriously detrimental to Pan

American-Grace Airways if the presentation to be made on behalf of Pan American Grace Airways in Docket No. 525 does not include a statement that

GR-9412

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[fol. 568] arrangements for such an interchange agreement have been or will be made; and

WHEREAS, Pan American Airways has stated its willingness to discuss at an appropriate time arrangements with domestic carriers serving Pan American Airways' gateways in the United States for the through operation of the equipment to be so interchanged with Pan American-Grace Airways;

NOW, THEREFORE, BE IT RESOLVED (1) That the President of the Company be, and he hereby is, authorized and directed to enter into negotiations with Pan American Airways, Inc., with respect to an interchange of four-engined equipment at the Canal Zone, as described in the preambles to this resolution, to conclude an agreement for such interchange with all practicable speed, and to present such agreement when concluded for the approval of the Civil Aeronautics Board; and (2) That the President of and counsel for this Company be directed to include in the presentation to be made on behalf of this Company in Docket No. 525 a statement that this Company intends to make, or has made, such an equipment interchange arrangement.

Vote being had, said resolution failed to pass, Messrs Balluder, Dean, Friendly and Morris voting in favor and Messrs Cogswell, Garni, Patchin and Roig voting against.

Mr Patchin then made the following statement:

"On my own behalf and on behalf of Messrs Garni, Roig, and Cogswell, I should like to state our reasons for voting against the motion. While the proposal is not a new one, we do not agree with Mr Dean's summary at the opening of his statement regarding what has previously taken place concerning it. It was thoroughly ventilated in the hearing in Docket 779. We have considered it anew during the

past few days. We do not understand just why Pan American should be attempting to force the proposal at this time. We can see no reason for doing so from Panagra's standpoint and it seems clear that their concern must be related to the interests of Pan American rather than to GR-9413 G051465

[fol. 569] those of Panagra.

"In view of Mr Dean's reference to certain letters exchanged with Mr Roig, I would like copies of all of those letters to be attached to the minutes as a part of this statement. As only a few minutes have been available to study Mr Dean's statement, I would like to reserve the right to amplify my statement if I deem it advisable later.

"We consider that the proposed equipment exchange agreement between Pan American and Panagra would not be in the best interests of Panagra for these reasons:

"1. In Docket No. 525 Eastern Air Lines, National Airlines and perhaps others have applied for a route between Miami and Balboa, while several applicants propose direct service between New York and Balboa. When the Board has decided what carriers are to operate between the United States and Balboa, that will be the time for Panagra to consider equipment exchange agreements with one or more of the carriers operating to the Canal Zone. Clearly, it is not in the interest of Panagra to limit its freedom of action, negotiation and contract by entering into an exchange agreement at this time with Pan American involving only the sector between Miami and Balboa, to the exclusion of other arrangements which may be much more beneficial to Panagra, particularly with reference to direct connections with New York.

"2. At the present moment any exchange agreement between Pan American and Panagra would be purely theoretical. The different type of equipment operated by the GR-9414 G051466

[fol. 570] two companies makes such an exchange at this time physically impossible. The date when it would be even possible to have uniform equipment is some time in the future. Under these conditions and in view of all the uncertainties which the future holds, the making of an

equipment exchange agreement now which can be relied upon to prove as beneficial to Panagra as one made in the future is a practical impossibility.

"3. An extension of Panagra's route to a terminal in the United States is manifestly more in Panagra's interest than the proposed equipment exchange agreement. So long as the question whether the Civil Aeronautics Board will direct such an extension remains pending in Docket No. 779 or in the courts, it is not good judgment for Panagra to enter into an arrangement which constitutes a far less favorable solution of the problem. Mr Dean recognizes this when he states that discussion of exchange with domestic lines would be unprofitable at this time when they themselves hope to extend their lines to Latin America.

"Accordingly, we propose that the Board of Directors adopt a solution to the problem which is obviously in Panagra's best interest as well as in the interest of the public—namely, the extension of the Company's route to a terminal in the United States. The Civil Aeronautics Board has frequently referred to the advantages of single carrier direct through service. This is preferable to the adoption of an inferior and temporary expedient, for equipment interchange between two carriers is at best a poor substitute for direct through service by a single carrier.

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[fol. 571] "Consequently, I move the adoption of the following resolution:

RESOLVED that the Company take action forthwith to secure the extension of its route from Balboa to a terminal in the United States, as is required in the interests of this Company and in the public interest; and

RESOLVED FURTHER that the President is hereby authorized to file an application on behalf of the Company for the extension of its route from Balboa to Miami or such other point in the United States as the Civil Aeronautics Board may determine."

Vote being had, said resolution failed to pass, Messrs Cogswell, Garni, Patchin and Roig voting in favor and

Messrs Balluder, Dean, Friendly and Morris voting against. Mr Dean stated that the reasons prompting himself and his colleagues to vote against this resolution appeared in the minutes of earlier meetings and in the presentation made on behalf of Pan American Airways in Docket No. 779, and that there was no need of repeating them here.

There being no further business, the meeting adjourned.

(sgd) H J Roig
Chairman

(sgd) W F Cogswell
Secretary

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[fol. 572]

GOVERNMENT'S EXHIBIT 244

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PAN AMERICAN AIRWAYS CORPORATION
15 EXCHANGE PLACE, JERSEY CITY, N.J.

April 3, 1945

W. R. Grace & Co.
7 Hanover Square
New York 4, New York

Dear Sirs:

It is our understanding that at the meeting of the Board of Directors of Pan American-Grace Airways, Inc. which is to take place tomorrow, your representatives may again bring up the question of that company's applying to the Civil Aeronautics Board for a certificate to operate a connecting service between the Canal Zone and the continental United States.

As you are aware, we take the position that this question is governed by the agreements between our two companies. We refer in particular to the original agreement of August 31, 1928, under which our two companies agreed to "as-

sociate for the commencement of an airplane service in Peru with the view of ultimately inaugurating a through mail service from the Panama Canal to Valparaiso, Chile," and to the further agreement of February 14, 1939. This latter agreement, which was made for the purpose of settling this identical question, provided that one of your representatives on the Board of Pan American-Grace would be elected President of that Company, and that on the other hand that we were to cause our Directors on the Board of Pan American-Grace to take action that would permit an application for a route between the Canal Zone and the United States only if Pan American Airways, Inc. failed to supply "an adequate direct connecting service."

The agreement of February 14, 1939, also provided that any disputes arising under the general plan embodied in the agreement, including any question as to the adequacy of Pan American's direct connecting service, should be determined by arbitration. We therefore request arbitration pursuant to the terms of that agreement.

Very truly yours,

PAN AMERICAN AIRWAYS CORPORATION

By J. T. Trippe
President

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GOVERNMENT'S EXHIBIT 245

Minutes of Regular Meeting of the Board of Directors of Pan American-Grace Airways, Inc., held at the office of Pan American Airways, Inc., 135 East 42nd Street, New York, N. Y. on April 4, 1945 at 9:15 o'clock in the forenoon.

PRESENT:

Messrs. Erwin Balluder
W F Cogswell
Howard B Dean
Henry J Friendly
A Garni
H Preston Morris
R H Patchin
H J Roig

being all the members of the Board.

Mr. H J Roig, President of the corporation, presided. Mr. W F Cogswell, Secretary acted as Secretary of the meeting.

. . .

Mr. Garni thereupon made the following statement in which Mesrs. Roig, Patchin and Cogswell concurred:

"As reported to the Board at the meeting of March 15, 1945, the Report of the Examiners, Francis W. Brown and H. Heinrich Spang, served March 5, 1945, in the Proceeding before the Civil Aeronautics Board, designated Docket 525, contains recommendations which raise questions of the greatest importance to this company's welfare.

A service by Eastern from Miami to Balboa and by Braniff from Houston to Balboa combined with an extension of Pan American's East Coast route to provide through service to New York, all of which the Examiners recommend, while this company remains with no through service at all, would result in very great injury to this company.

While the company, through its counsel, has filed exceptions to these recommendations it cannot adequately maintain them or fully defend its position in Docket 525 unless [fol. 574] it file application for extension of its route from Balboa to a terminal or terminals in the United States.

The purpose of the Proceeding in Docket 525 is to establish a postwar air service pattern for United States air carriers in Latin America. Unless this company be given its proper place in such pattern now, it will be unable to secure it later. If that pattern is established in such fashion that this company remains dead ended at Balboa while domestic carriers such as Eastern and Braniff take over its proper role as a through carrier to the United States and are placed in position to become potential competitors in South America while at the same time Pan American's competitive East Coast line is given a through service to New York, this company must look forward to gradual weakening of its position and even possible elimination as an American international air carrier.

The extension of the routes of Eastern and of Braniff to Balboa would not only indefinitely defer if not completely destroy all possibility of the route of this company ever being extended to a terminal in the United States but would largely destroy the benefits of such extension if it were later secured. On the other hand, it would make the extension of the routes of Eastern and Braniff southward from Balboa into territory served by this company almost inevitable. Both Eastern and Braniff, in their original applications applied for routes in the continent of South America and Braniff is still pressing its application. Such routes would result in irreparable injury to this company [fol. 575] since an American international airline operating exclusively abroad without even a terminal in the United States cannot compete effectively with American domestic airlines with through services and extensive domestic networks within the United States. Additionally the lack of a United States terminal would greatly weaken this company's position with respect to foreign competition which, under the terms of the International Air Transport Agreement, is free to operate to and from the United States terminals. Meanwhile extension of Pan American's East

Coast South America route to New York, without simultaneous extension of the route of this company via the West Coast of South America to the United States, would result in great disadvantage to and discrimination against the West Coast countries of Ecuador, Peru, Bolivia, and Chile and would give the East Coast service to Buenos Aires an overwhelming advantage which would result in the diversion to the East Coast route of the greater part of this company's normal traffic between the United States and Buenos Aires.

The Examiners' Report states in effect that in the Latin American air service pattern Panagra is the logical operator to serve the sector between Balboa and the United States and that they recommend the extension of Eastern's route into this sector because Panagra has not filed application for extension of its route to the United States. The language of the Report indicates that this is the reason Eastern is recommended for the route between Miami and Balboa and that this or some other route extending Panagra to the United States would have been recommended by the Examiners had Panagra filed an application for such extension. Similarly Public Counsel in their brief find this company entitled to be certificated for the Balboa-New York [fol. 576] service and that "such an authorization would also provide the greatest public convenience" (Brief p. 59). The Examiners' Report states:—

"Another consideration which is of considerable importance is the need of Panagra for an independent connection to the United States. As heretofore indicated, at the present time Panagra is dependent upon connections with Pan American at Balboa for traffic from the United States to points along its route. A substantial portion of the traffic moving over Panagra's route originates or terminates in the United States, as demonstrated by the fact that during the year 1941 almost 40 percent of the Canal Zone traffic from the United States consisted of passengers received from or transferred to Pan American at Balboa. In view of the conclusion heretofore reached that the traffic potential south of the north coast of South America is not suffi-

cient to justify the establishment of an additional American flag carrier, Panagra should be in a position to compete on an equal footing with Pan American for the traffic destined to the common terminal point of Buenos Aires. In order to accomplish this purpose it should be relieved of its dependence upon Pan American for connecting service from the United States.

W. R. Grace in a petition filed in this proceeding and in its brief urged that the Board find that the public convenience and necessity require the extension of Panagra's route from Balboa to the United States and that a certificate be issued to it authorizing such a service. A similar proposal was before the Board in the so-called *Panagra Terminal Investigation* case (*Panagra Terminal Investigation*, Docket No. 779 decided May 24, 1944). In that case after an extended hearing, the Board concluded that the extension of Panagra's route from the Canal Zone to the United States would not be an alteration, amendment, or modification of its certificate within the meaning of section 401 (h) of the Act in the sense that the Board could compel such an extension in the absence of an application from Panagra. Since there is no application by Panagra in the present case the reasoning of the Board would appear to apply with equal force and accordingly the petition of W. R. Grace should be dismissed. In view of this recommendation and the previous conclusions it follows that an independent operation should be authorized between the United States and the Canal Zone."

[fol. 577] We and W. R. Grace & Co. have sought continuously over several years to secure the approval of Pan American and of its directors and of its President, Mr. Juan T. Trippe and of its directors on the Board of this company to the filing of an application by this company for an extension of its route from Balboa to the United States. Such approval has at all times been refused. W. R. Grace & Co. brought the matter to the attention of the Civil Aeronautics Board and sought their assistance. The Proceeding before the Civil Aeronautics Board known as Docket

779, to which the Examiners refer, was thereupon instituted by the Board under Section 401 (h) of the Civil Aeronautics Act to determine whether in the public interest the Board should compel an extension of Panagra's route to the United States. Pan American vigorously opposed such extension in that proceeding and the Civil Aeronautics Board, on Motion of Pan American, ruled that it was without jurisdiction to order the extension in the absence of an application by this company therefor. In Docket 525, W. R. Grace & Co. is again seeking relief from the Civil Aeronautics Board as indicated in the above quotation from the Examiners' Report. Pan American is opposing the granting of the petition of W. R. Grace & Co. and the Examiners have found that by reason of the Board's ruling in Docket 779 they are unable to recommend extension of the company's route in Docket 525 in the absence of application by this company therefor.

In order that this company may protect itself in the crisis which now confronts it (as Pan American is itself doing in numerous applications for extensions it has filed with the Civil Aeronautics Board including its recent application for routes within the continental United States) and if possible avoid the great damage it will sustain [fol. 578] through its having in the past failed to avail of the opportunity open to it, as indicated in the Examiners' Report, of securing a through route from Balboa to the United States, it is desirable and necessary that this company file without delay an application to extend the route of this company from Balboa, Canal Zone to the United States. What we originally sought as an advantageous development of this company's air service has now become necessary to the preservation of its very existence. Failure to secure such extension to the United States in connection with Docket 525 will not only deprive this company of the highly advantageous opportunity to enlarge and improve its service but will imperil its very existence as an American international air carrier and will result in great injury and damage to the company and to its stockholders;—a damage for which those responsible must assume full liability.

In view of all the foregoing, I move the adoption of the following resolution:—

RESOLVED

1. That this company apply forthwith for an extension of its route from Balboa to New York and New Orleans and in the alternative to Miami and New Orleans as the Civil Aeronautics Board may determine and via such intermediate points as they may designate.
2. That this company take such further action incidental to or relating to any and all of the foregoing matters as the President may deem appropriate including, if he deem it advisable, the formation of a 100% owned and integrated subsidiary company and the filing of application for the routes referred to by said company.
3. That the President of the company and other officers be and they are hereby authorized to do all such things as they may deem desirable to carry out the foregoing.

[fol. 579] Mr. Cogswell seconded Mr. Garni's motion.

Mr. Dean stated that the directors who were representatives of Pan American Airways Corporation were fully aware of their responsibilities but that it must be plain that they could not agree to the resolution proposed by Mr. Garni. The subject had been discussed on so many occasions and at such length that he would not attempt to make a full statement of Pan American's position. However, he did wish to refer back to the minutes of the meetings of September 22, 1942 and July 31, 1944 and to make the following additional remarks:

(1) Pan American Airways Corporation considers the subject-matter of the proposed resolution to be covered by the agreement of the two stockholders dated August 31, 1928 and the supplementary agreement dated February 14, 1939. It renews its previous offers to submit the question under discussion to arbitration, as provided in the 1939 agreement, and asks to have incorporated in the record of these proceedings a letter to W. K. Grace & Co. reaffirming that offer. It considers its position as to the effect of the agreements to be directly supported by the opinion of the Civil

Aeronautics Board in Docket 779 in which the Board stated "that to extend the Panagra system from the Canal Zone to a point in Florida would constitute a basic transformation of the character of the carrier."

(2) Pan American Airways Corporation believes also that the evidence both in Docket 779 and Docket 525 et al. demonstrates that service by two American-flag carriers between the Canal Zone and the Eastern United States [fol. 580] would be uneconomical. This would very definitely be the case on the basis of the traffic estimates submitted in Docket 525 by Pan American-Grace itself.

(3) Pan American Airways Corporation and Pan American Airways, Inc. have long been of the view that, in order to eliminate the necessity of a change of plane at the Canal Zone, it would be advantageous for Pan American Airways, Inc. and Pan American-Grace to enter into arrangements for equipment interchange, but all efforts to secure the assent of the Grace directors to such arrangements have been unavailing. Recent opinions of the Civil Aeronautics Board have shown great interest in this type of arrangement on the part of the Board. Pan American Airways, Inc. wishes to reiterate to Pan American-Grace its desire to make such interchange arrangements with Pan American-Grace at the Canal Zone as would best serve the public interest.

While the directors representing Pan American Airways Corporation are thus unable to join in the action sought by the directors representing W. R. Grace & Co., they would of course, be glad to join with the Grace representatives in discussions with any appropriate Governmental authorities.

Letter referred to in Mr. Dean's statement:—

"W. R. Grace & Co.
7 Hanover Square
New York 4, N. Y.

April 3, 1945

It is our understanding that at the meeting of the Board of Directors of Pan American-Grace Airways, Inc. which is to take place tomorrow, your representatives may again bring up the question of that company's applying to the Civil Aeronautics Board for a certificate to operate a connecting service between the Canal Zone and the continental United States.

As you are aware, we take the position that this question is governed by the agreements between our [fol. 581] two companies. We refer in particular to the original agreement of August 31, 1928, under which our two companies agreed to "associate for the commencement of an airplane service in Peru with the view of ultimately inaugurating a through mail service from the Panama Canal to Valparaiso, Chile," and to the further agreement of February 14, 1939. This latter agreement, which was made for the purpose of settling this identical question, provided that one of your representatives on the Board of Pan American-Grace would be elected President of that Company, and that on the other hand that we were to cause our Directors on the Board of Pan American-Grace to take action that would permit an application for a route between the Canal Zone and the United States only if Pan American Airways, Inc. failed to supply "an adequate direct connecting service."

The agreement of February 14, 1939 also provided that any disputes arising under the general plan embodied in the agreement, including any question as to the adequacy of Pan American's direct connecting service, should be determined by arbitration. We therefore request arbitration pursuant to the terms of that agreement.

Very truly yours,

PAN AMERICAN AIRWAYS CORPORATION

B. J. T. Trippe, President"

Vote being had said resolution failed to pass, Messrs. Reig, Garni, Patchin and Cogswell voting in favor and Messrs. Dean, Balluder, Morris and Friendly voting against.

Messrs. Garni, Reig, Patchin and Cogswell requested that the following statement appear in reply to Mr. Dean's statement:

1. Regarding the subject of arbitration we refer to W. R. Grace & Co.'s reply to Pan American Airways Corpora-

tion's letter dated April 3rd, copy of which will be attached to these minutes. The agreement dated February 14, 1939 was not "supplementary" to the letter of August 31, 1928 which you refer to as "the agreement of the two stockholders dated August 31, 1928."

- [fol. 582] 2. This company submitted no estimates in Docket 525 relating to the routes referred to in the application we now propose. We believe the routes we propose would be profitable in themselves and would add greatly to the strength and earning power of this company's route in South America. The problem now confronting this company, however, is not whether or not a route between Balboa and the United States would in itself be "uneconomic" or otherwise. The fact is that such a route is necessary to protect the company's route in South America.
3. Our position with reference to Pan American's current proposals of equipment interchange is stated in the minutes of the meeting of July 31, 1944 to which we refer. The validity of the suggestion of Pan American's directors of this solution of the problem may be judged by contrasting it with Pan American's consistent insistence on through routes instead of equipment exchange in their own operations including the statement in their recent application for extension to interior points in the United States that the granting of foreign routes to domestic airlines "would make it impracticable for Pan American to continue to offer the character and quality of service under the certificates held by it which the public convenience and necessity requires, unless Pan American were itself to engage in domestic air transportation." That is precisely the reason we desire to apply for the proposed extension and the reason why equipment exchange is no more a solution in our case than in Pan American's. The merit of their [fol. 583] suggestion may further be weighed in the light of the unwillingness of Pan American's directors to give any indication in reply to our question as to whether, if Eastern is ultimately extended to Balboa, the Pan American directors would agree to this com-

pany's entering into an equipment exchange with Eastern through to New York which would obviously be greatly preferable to an exchange with Pan American merely as far as Miami.

Referring to the last paragraph of Mr. Dean's statement, we would be delighted to join with the Pan American representatives "in discussions with any appropriate Governmental authorities" and request that you forthwith designate your representative or representatives to join with the President of this company as our representative in discussions as suggested. We propose Mr L. Welch Pogue, Chairman of the Civil Aeronautics Board as the Governmental authority with whom such discussions be begun.

Mr. Friendly requested that the following additional statement on behalf of Messrs. Dean, Balluder, Morris and himself should appear in answer to the foregoing statement of Mr. Garni:

1. We wholly disagree with the interpretation of the agreement of February 14, 1939, set forth in Mr. Inglehart's letter of April 10, 1945, and in the opinion of Mr. Fred J. Knauer dated April 9, 1945. This subject is dealt with in the reply of Pan American Airways Corporation dated April 14, 1945 to Mr. Inglehart's letter and in the opinion of counsel to Pan American, copies of which we ask to have included in these minutes.

[fol. 584] 2. It is realized that Pan American-Grace submitted no evidence in Docket 525 relating to routes north of the Canal Zone. However, the Company did submit estimates in that Docket as to the amount of traffic south of the Canal Zone, and it is quite possible to derive from these estimates, as well as from the data presented in Docket 779, an indication of the estimated traffic between the Canal Zone and the Eastern United States. The very arguments which have been made by Pan American-Grace as to the uneconomic character of certifying additional carriers in

South America apply equally between the Canal Zone and the Eastern United States.

3. The third paragraph of Mr. Garni's statement does not correctly set forth the position taken by the Pan American directors at the meeting in answer to a question then propounded by Mr. Roig whether if Eastern were ultimately extended to Balboa, they would agree to Pan American-Grace's entering into an equipment exchange with Eastern. The statement of the Pan American directors was that they would be quite prepared to consider this matter if Eastern were certificated and if Eastern were then to be willing to enter into an equipment interchange with Pan American-Grace, but that in view of the facts that Eastern had not been so certificated and that Eastern had consistently opposed the whole idea of equipment interchange, there was no purpose in discussing the matter at this time.

In connection with the last paragraph of Mr. Garni's statement accepting the proposal made by the Pan [fol. 585] American representatives at the meeting of April 4 that they "would be glad to join with the Grace representatives in discussions with any appropriate Governmental authorities," it should be clear for the record that this acceptance did not occur at that time but only in an extension of Mr. Garni's remarks which was not received by the Pan American representatives until April 12. Pan American hereby designates Mr. Friendly as its representative to join in such discussions with Mr. Roig as a representative of W. R. Grace & Co. It welcomes the suggestion that these be begun with Mr. L. Welch Pogue, Chairman of the Civil Aeronautics Board.

There being no further business, the meeting adjourned.

Harold J. Roig
Chairman

W. F. Cogswell
Secretary

[fol. 586]

GOVERNMENT'S EXHIBIT 246

— COPY —

April 10, 1945

Pan American Airways Corporation
Chrysler Building
135 East 42nd Street
New York 17, N. Y.

Attention of the President

Gentlemen:

We acknowledge receipt of your letter of April 3rd.

This letter was obviously written before Mr. Garni's statement to the meeting of the Board of Directors of Pan American-Grace Airways, on April 4th, copy of which we enclosed.

In substance your letter asks that we should arbitrate the pending issue. This issue is not morally legally or practically a subject for arbitration. We attach herewith opinion of Counsel making clear the legal question. Having personally made the agreement of February 14, 1939 with Mr. Whitney, I know that it never contemplated arbitration of any such issue as the present one.

The real issue is the choice between permitting Panagra to realize its normal destiny to come through to a terminal in the United States as part of the Latin American air pattern being worked out by the Civil Aeronautics Board in Docket 525 or of abandoning this opportunity and allowing this service to be taken over by one of the domestic airlines and so creating a competition to Panagra that would seriously prejudice your interests and ours and that would, we believe, prejudice rather than benefit the national interest. The Examiners' Report in Docket 525 makes it reasonably clear that Panagra rather than Eastern would have been recommended for the Balboa United States connection if you had permitted Panagra to apply therefor.

We have had reason to believe but have hesitated to accept the theory that you were willing to sacrifice Panagra's interest in this matter in order to avoid possible prejudice to the interests of your company in connection with the plan you are advocating of a "Chosen Instrument" to control all American international aviation. In view, however, of the critical condition that has arisen and of the refusal of your representatives on the Panagra Board to agree to action necessary to meet it, we need hardly call your attention to the serious responsibility that this places on Pan American Airways Corporation and its Directors.

We are sending copies of this letter with enclosures to the members of your Board of Directors.

Very truly yours,

W. R. GRACE & Co.

D. S. Iglehart, President

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[fol. 587]

GOVERNMENT'S EXHIBIT 247

PAN AMERICAN AIRWAYS
CORPORATION

15 EXCHANGE PLACE, JERSEY CITY, N. J.

April 14, 1945

W. R. Grace & Company
7 Hanover Square
New York 4, New York

Attention of the President

Dear Sirs:

We acknowledge receipt of your letter dated April 10th in response to ours of April 3rd.

It is correct, of course, that our letter of April 3rd was written prior to Mr. Garni's statement to the meeting of the Board of Directors of Pan American-Grace Airways, Inc. on April 4th. However, previous discussions between our representatives and yours had accurately indicated the nature of the proposal which Mr. Garni would make and the grounds that he would advance, and nothing in his statement would alter the position taken in our letter.

We wholly disagree with your statement that the pending issue "is not morally, legally or practically a subject for arbitration." Our counsel have advised us that legally it is subject to arbitration under our agreement of February 14, 1939. We enclose a copy of their opinion. Aside from the legal obligation to arbitrate we are at a loss to understand why any business man having confidence in the equity of his position would consider a question of this nature not to be "morally" or "practically" a subject for arbitration.

You refer to the possibility that in Docket 525 the Civil Aeronautics Board might authorize service between the United States and the Canal Zone to be conducted by a domestic airline, thus "creating a competition to Panagra." If such action were to be taken, the domestic airline competition would be for Pan American's wholly owned service between the United States and the Canal and not for the West Coast portion of the System conducted by Pan American-Grace Airways.

You refer to the fact that our Company has taken the position that the interests of the United States would be

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[fol. 588] best served if its international air transportation were to be conducted by a community company uniting all interests able to contribute to the development of this service,—including not merely the existing international operators but also the domestic airlines, the railroads and the steamship companies. We sincerely believe this policy to be in our country's best interest, for reasons which have

been publicly presented at a recent hearing before the Senate Committee on Commerce. However, our attitude with respect to the subject of this letter is based upon the particular facts and circumstances relating to Pan American-Grace Airways, which have been repeatedly discussed between your representatives and ours, and not upon the general questions to which you refer.

Very truly yours,

PAN AMERICAN AIRWAYS CORPORATION,

By /s/ J. T. TRIPPE
President

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[fol. 589]

GOVERNMENT'S EXHIBIT 248

**TELEPHONE CONVERSATION BETWEEN
MR. DEAN & MR. ROIG
11:00 a.m. JULY 11, 1945**

Dean telephoned Mr. Roig and advised him that he had had an opportunity last night to discuss with Mr. Trippe the conversation which Mr. Roig and Mr. Dean had had on July 9, previous to the Pan-Grace Board Meeting. Dean told Roig that he had tried to present to Mr. Trippe as accurately as possible the reasons why Mr. Roig felt it was imperative at this time, as a result of the North Atlantic Certificate decision, again to consider the desirability of having Pan American-Grace Airways extended to a point in the United States.

Mr. Dean further informed Mr. Roig that, as a result of this conversation with Mr. Trippe, it had been decided that this whole matter would be referred again by Mr. Trippe to the Executive Committee Meeting to be held on Tuesday, July 17, and that if there were any additional points which Mr. Roig or his associates wished to bring up before that date, Mr. Dean would like to have them presented for consideration.

Mr. Roig made no comment at all other than thanking Mr. Dean for so promptly taking up the matter with Mr. Trippe.

Mr. Roig telephoned Mr. Dean at 1:00 p.m. and requested that he be allowed to appear before the Executive Committee Meeting next Tuesday, for the purpose of being able to answer any questions that might come up and to present his views on this matter. Mr. Dean advised Mr. Roig that Mr. Trippe was out of town, and that he would let him know after Thursday or Friday.

/s/ H B D
H. B. D.

Copies to: Mr. Trippe
Mr. Balluder
Mr. Friendly

PAA-2877
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[fol. 590]

GOVERNMENT'S EXHIBIT 249

PAN AMERICAN AIRWAYS
CORPORATION

15 EXCHANGE PLACE, JERSEY CITY, N. J.

August 13, 1945

Return to

Harold J. Roig, Esq.
Vice President, W. R. Grace & Co.
7 Hanover Square
New York, New York

Dear Harold:

Over the past month our Executive Committee and Board of Directors have given most careful consideration to the questions concerning Pan American-Grace Airways, Inc., which formed the subject of your talk with Mr. Trippe and myself on July 17, of your memorandum of July 17, and of your letter of August 7. Your memorandum was sub-

mitted to our counsel for comment; and the entire matter was thoroughly canvassed at two meetings of our Executive Committee and at the August 7 meeting of our Board. At the latter the attention of our directors was specifically called to Pan American's petition for rehearing in the *North Atlantic* cases, as requested in your letter of that day.

As I have already told you on the phone, our Board was unanimously of the opinion that we should not now depart from the position which we have previously taken.

We are unable to agree with the position taken by you that we are obliged to consider this question without regard to the fact which, we believe, was demonstrated in C.A.B. Docket 779, that Pan American-Grace Airways was intended from the outset to be an integral part of the Pan American Airways System, operating as an extension down the West Coast of South America of the service for which Pan American had already received a mail contract between the United States and the Canal—an extension which was well under way when, in August, 1928, we granted your Company an option take up to a 50% interest in it. We are likewise unable to agree, as your memorandum seems to imply, that we are likewise bound to eliminate from consideration the agreement between us of February 1939, with its arbitration provision, and our repeated offers to arbitrate thereunder.

However, even on the approach taken in your memorandum, our directors do not believe that the best interests of Pan American-Grace Airways would be served by seeking to be allowed to compete between the Canal Zone and the continental United States with Pan American Airways and the other possible American-flag connections referred to in your memorandum, with the almost certain result of stimulating

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[fol. 591] ulating these connecting carriers to press for extensions down the West Coast of South America.

At our meeting on July 17 you asked whether, if we determined to adhere to our position in regard to Pan American-Grace Airways, we would be willing to sell our

interest in that company to you. Apart from the fact that your steamship interests would almost certainly prevent approval of such an acquisition, we entertain no fears as to the future of Pan American-Grace Airways as a part of the Pan American Airways System. On the other hand, since you have indicated that W. R. Grace & Co. is of the opinion that failure to apply for an extension of Pan American-Grace's route to the continental United States threatened a loss of the shareholders' investment in that company, our directors have thought it would be appropriate that Pan American Airways Corporation should offer to purchase your half interest in Pan American-Grace, at its fair value, to be determined by agreement or, in the event that we are unable to agree, by a disinterested arbitrator or arbitrators. This offer we now make.

Sincerely,

/s/ HOWARD B. DEAN
Howard B. Dean
Vice President

cc: Mr. Trippe

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[fol. 592]

GOVERNMENT'S EXHIBIT 250

COPY

W. R. GRACE & CO.
7 Hanover Square, New York

Airways
4112

HAROLD J. ROIG
Vice President

August 27, 1945

Mr. Howard B. Dean
Pan American Airways
Chrysler Building
New York 17, N. Y.

Dear Howard:

I refer to your letter of August 13th and my acknowledgement of the 14th.

Your letter was a very great disappointment. After, as you say, a month's consideration by your Executive Committee and Board of Directors, I felt that the least we might expect was a frank and fair statement in reply to the submission I made to Mr. Trippe.

You will recall that at the very opening of my conversation with Mr. Trippe he agreed with me that the present discussion should be on the basis of conditions as they exist *today* and what is in the best interests of our joint company under these conditions. There is nothing to prevent Panagra's stockholders from agreeing now on any action necessary in that connection. The legal quibbling of the third paragraph of your letter has, accordingly, no relevancy to the present discussion. Our position on the points mentioned in this paragraph is well known to you and I shall not repeat it. Suffice it to say that not only do I not agree with the statements in this paragraph but I feel that Pan American is hardly in position to make deductions on the

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[fol. 593] facts from the record in Docket 779 in view of its insistent efforts to prevent us from securing a determination by the CAB of what that record establishes.

Your only other point, and the single argument you advance related to the best interests of Panagra, is that such interests would not be furthered by an extension to the United States with the result of stimulating domestic carriers in the area to press for extensions down the West Coast of South America. The bona fides of this contention may, I think be best judged by the fact that Pan American has applications already granted or pending to bring all of its own divisions and associated companies to United States' terminals and, at almost the very time your letter was being written, the press services were announcing that Avianca of which Pan American owns 64% and Cia. Mexicana de Aviacion, S. A. of which you own 56% were applying for such extensions; Avianca's extension being actually from Balboa. The idea that Panagra is the only line or company associated with Pan American whose interests are best served by remaining without a United States terminal is simply too absurd for comment.

Your letter, as I see it, merely reflects a continuation of the policy in respect of a United States terminal for Panagra consistently followed by Pan American Airways and its representatives on Panagra's Board, of always sub-
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PAA 3962

[fol. 594] ordinating Panagra's interests to their own. The latest action not only denies Panagra the benefit of the honest and independent judgment of its four Pan American directors to which it is entitled but is on its face an admission that this action is without even plausible justification under today's condition. Quite apart from any legal considerations, I think that we had a right just as men and partners to expect fairer treatment.

While your letter is addressed as a personal one to me and I am, therefore, replying in the same form, this matter is by no means personal. I accordingly request that you

bring this letter to the attention of Pan American's Board of Directors.

Very truly yours,

/s/ HR

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[fol. 595]

GOVERNMENT'S EXHIBIT 251

Cable Address
"PANAGRA"

PAN AMERICAN-GRACE AIRWAYS, INC.

Office of the President
7 Hanover Square
New York 5, N. Y.

January 17, 1946

Mr. Howard B. Dean
Pan American Airways
Chrysler Building
New York 17, N. Y.

Dear Howard:

In two letters from South America, received yesterday, I am advised:

- (1) of a project to establish an international line between Lima and Toronto, Canada, presumably via United States points, under the auspices of our old friend Webster.
- (2) of a proposal to extend T.A.C.A. to Peru. T.A.C.A., as you know, already has extension existing and projected to the United States.
- (3) of a projected Peruvian national line to enter the international field as an offset to the projected Chilean C.S.A.V. line which, as you know, proposes

to parallel us all the way from Santiago and to proceed to New York via Havana.

In our discussion at Judge Burns' office the other day, you suggested that the reason you were acquiescing in Avianca, Panair do Brasil (and other subsidiaries in which you had a stock interest) coming to the United States, was that as long as national lines from those countries were coming through, the company in which you had a stock interest might just as well come through. Why does not that reasoning apply to Panagra in view of projects such as those above referred to?

Yours very truly,

HJR

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[fol. 596]

GOVERNMENT'S EXHIBIT 252

cc: Mr. Trippe
Mr. Friendly

HBD

February 21, 1946

Mr. Harold J. Roig, President
Pan American-Grace Airways, Inc.
135 East 42nd Street
New York, New York

Dear Harold:

We have discussed the matter of your proposed operation of the two Pan American-Grace Constellations with Mr. Shannon and Mr. Vidal on the basis of Mr. Shannon's memorandum to me of February 16th. This matter was referred to our Executive Committee meeting on February 19th. The Committee felt that the operation as outlined would result in excessive cost to Pan American-Grace as well as providing uneconomical utilization of this equipment.

I have been requested by the Committee to submit to you a plan whereby Pan American Airways, Inc. would be willing to contribute two Constellation aircraft to a pool to be formed with Pan American-Grace's two Constellation aircraft making a total of four aircraft of this type. With this fleet, an efficient operation could be conducted from the Miami base serving both the East and West coasts of South America by providing a daily service from Miami to Lima and a three times weekly service from Miami to Rio. This would result in a utilization of a little over nine hours per day per unit which could be still further improved, as for example, through a second daily service between Miami and Balboa, if warranted, or a daily Miami-Barranquilla trip. In support of our plan, I attach a memorandum outlining in detail the economic disadvantages of the proposal submitted in Mr. Shannon's memorandum and justifying in every respect our suggestion that a pool of equipment be formed to increase the utilization of the equipment to a satisfactory point, where the cost per mile will be comparable to that which we expect to obtain in our Constellation operations elsewhere.

I need hardly elaborate on the point that a through service from Miami to Lima, such as would be provided by the proposed equipment interchange, would be highly desirable from the standpoint of the traveling and shipping public.

We are confident that our proposal is entirely practical and in the interest of Pan American-Grace Airways, as well as the public interest. If you will kindly advise me that you concur in principle, I shall immediately take the necessary steps to coordinate this program, and put it into effect at the earliest possible moment.

Very truly yours,

Original Signed By
HOWARD B. DEAN

Howard B. Dean
Vice President

Attachment
1563

Feb. 25, '45
PAA-2898
12/21/54 mfr

[fol. 599]

GOVERNMENT'S EXHIBIT 254

Cable Address
"Panagra"

PAN AMERICAN-GRACE AIRWAYS, INC.

Office Of The President
7 Hanover Square
New York 5, N.Y.

April 11, 1946

Mr. Howard B. Dean,
135 East 42nd Street,
New York 17, New York

Dear Howard:

Yours April 8th received yesterday.

I really haven't time just now for letter writing. So please consider all rights reserved in respect of yours under reply as well as yours of February 21st which I referred to at the last Board meeting.

Your enumeration of the advantages of pooling compared with our present position dead-ended at Balboa seems to be based on essential acceptance of the arguments for a U. S. Terminal which I have been urging for so many years. The only trouble is that you do not go far enough. What I am interested in is the comparison between our present position *and a U. S. Terminal*,—not comparison with a poor substitute for that terminal through a pooling agreement with all its infirmities and inadequacies. It is obvious that a U. S. Terminal for Panagra is of far more vital concern to the public service as well as to Panagra's very existence than the half-way financial advantages to which you refer,—even assuming that they would be realized.

But quite apart from this, as I explained at our Board meeting, Mr. Gerhard A. Gesell, Panagra's Counsel, is of

the opinion that entering into a pooling agreement pending decision in Docket 525 would be prejudicial to the company's interest. Moreover, as stated at that meeting, I am

PAA-2895 Apr 16 '48

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[fol. 600] of the opinion that while Docket 779 is pending, Pan American having insisted that Panagra maintain a strictly neutral position in respect of the entire U. S. Terminal question, it is not appropriate for Pan American to put Panagra in a position of violating this neutrality by forcing it to take action which could in any way or to any extent have the effect of prejudicing the terminal question. The Constellations were not tied into any pooling arrangement when they were bought and pooling arrangements have nothing to do with the changes in our equipment program which we now have under consideration.

I am writing you separately regarding the action the Panagra Management proposes taking at this time regarding equipment.

Sincerely yours,

/s/ H. R.

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[fol. 601]

GOVERNMENT'S EXHIBIT 255

April 15, 1946

Mr. Harold Roig, President
Pan American-Grace Airways, Inc.,
7 Hanover Square;
New York 5, N.Y.

Dear Harold:

Howard Dean has transmitted to me your letter of April 11, 1946 in answer to his of April 8.

As I understand it, you do not question that an arrangement for the interchange of Constellation or C-54 equipment with Pan American would provide substantial economies and better service to the public. If so, why should not Pan American-Grace have the advantages of these economies and the public the benefit of that service while the controversy over the proposed extension to the continental United States goes on? Surely the answer that successful operation of such an interchange might militate against the efforts of W. R. Grace & Company to force such an extension is not one which you can expect us to regard as consistent with the duties of the management of Pan American-Grace.

I am quite unable to understand your suggestion that acceptance of our interchange proposal would put Pan American-Grace's management in a position of violating neutrality on this issue of the extension. So long as Pan American-Grace's route is what it is, the duty of Pan American-Grace's management is to operate that route in the most economical and efficient manner and give the best possible service to the public. Refusal by that management to make an interchange arrangement because of fear that this might demonstrate the lack of necessity for a route extension seems to us not only to be taking a decidedly unneutral position but, what is more important, to constitute a breach of fiduciary responsibilities.

There would, of course, be no objection to postponing this matter for a short time pending the expected decision in Docket 525, were it not for the fact that the imminent delivery of four-engined equipment makes time of the essence.

In view of your continued refusal to consider an inter-

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[fol. 602] change arrangement, we are willing to approve certain proposals made in your other letter of April 11, as

outlined in a letter from Erwin Balluder which goes forward to you simultaneously with this.

Sincerely yours,

Henry J. Friendly
Vice President and General Counsel

HJF/vb

bcc.—Vice President Dean
E. Balluder

1563

PAA-2892

[fol. 603]

GOVERNMENT'S EXHIBIT 256

Cable Address
PANAGRA

PAN AMERICAN-GRACE AIRWAYS, INC.

Office of the President
7 Hanover Square
New York 5, N.Y.

May 24, 1946

John C. Cooper, Esq.
Director, Pan American Airways Corporation
135 East 42nd Street
New York 17, N. Y.

Dear Sir:

According to the Record in C.A.B. Docket 779, at a meeting of the Board of Directors of Pan American Airways Corporation, held January 7, 1941, the following resolution was adopted:

RESOLVED, that the Corporation, as owner of half of the stock of Pan American-Grace Airways, Inc. should decline to acquiesce in the filing by Pan American-Grace Airways, Inc. of an application

for a certificate of convenience and necessity between the Canal Zone and New Orleans, Louisiana, and that the representatives of the Corporation upon the Board of Directors of Pan American Grace Airways, Inc., should not attend the meeting of such Board of Directors called for the afternoon of January 14, 1941, to act upon such proposal, or any adjournment thereof, and except upon further instructions from the Executive Committee or the Board of Directors, should not attend any other meeting of the Board of Directors of Pan American Grace Airways, Inc., at which action is to be taken upon the subject matter above described.

In view of this action by Pan American's Board of Directors of which you are a member, I am enclosing herewith a copy of the Notice of a Special Meeting of the Board of Directors of Pan American Grace Airways, Inc. which I have called to be held on May 28, 1946 for the purposes stated in said notice.

Very truly yours,

(signed) HAROLD J. ROIG
Harold J. Roig
President

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PAA-2902
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[fol. 604]

PAN AMERICAN-GRACE AIRWAYS, INC.
NOTICE OF SPECIAL MEETING OF BOARD
OF DIRECTORS

May 28, 1946

Pursuant to call of the President, a special meeting of the Board of Directors of PAN AMERICAN-GRACE AIRWAYS, INC. will be held at the office of Pan American

Airways, Inc., 135 East 42nd Street, New York, N. Y., on the 28th day of May, 1946, at 4:00 o'clock in the afternoon, for the purpose of complying with the decision of the Civil Aeronautics Board in Docket No. 525 approved by the President of the United States, in which they state:

"The importance of providing service between the traffic generating areas of the northeast is recognized. It should be pointed out, however, that in extending Pan American from New York to San Juan, this area will be afforded a substantially improved service to the Caribbean area and to the east coast of South America. In addition, we have long recognized the desirability of an application to the Board which would permit a determination of the question of extending Pan American Grace Airways from its present terminal at Balboa to a point in the United States. If such an extension were made to Miami or New York, or some other point on the eastern seaboard, the eastern part of the country would be afforded a fast direct service to the west coast of South America and to Buenos Aires."

.....

"In view of the facts above outlined we feel that the joint owners should in the public interest cooperatively enable Panagra to apply for access to the east coast of the United States."

by authorizing the application by Pan American-Grace Airways, Inc. to the Civil Aeronautics Board for an amendment of its Certificate of Convenience and Necessity so as to extend its route from Balboa to New York via Havana, Cuba and/or Miami, Florida and/or such other intermediate points as may seem advisable, and for the transaction of such other business as may properly come before the meeting.

W. F. COGSWELL
Secretary

Dated May 24, 1946

{fol. 605}

GOVERNMENT'S EXHIBIT 257

W. R. GRACE & CO.

7 Hanover Square, New York 5, N.Y.

Office Of The President

May 31, 1946

Mr. J. T. Trippe

Director, Pan American Airways Corporation

135 East 42nd Street

New York 17, N. Y.

Dear Sir:

By their decision in Docket 525 (Latin American Route Case) the Civil Aeronautics Board and the President of the United States have placed the responsibility upon Pan American Airways Corporation and W. R. Grace & Co., as the owners of Panagra, to implement the decision "that the joint owners should in the public interest cooperatively enable Panagra to apply for access to the east coast of the United States."

W. R. Grace & Co. is prepared to discharge this responsibility by enabling Panagra forthwith to apply for corresponding extension of its route to New York. With a view to making this possible cooperatively we have already discussed the matter with your President, Mr. Trippe, and feel that we should briefly state our position to the members of your Board.

The decision in Docket 525, unless Panagra obtains this extension, involves potentially tragic consequences to our joint company. That decision introduces into the Latin American and adjacent field for the first time certificated routes by six aggressive American airlines, Braniff, National, Eastern, Western, Colonial and Chicago & Southern. Braniff is granted a route the full length of South America to Rio and Buenos Aires, tapping en route many of Panagra's principal traffic points on the west coast of South America and tying in with its own network in the United

[fol. 606] States and with those of National and Chicago & Southern at Havana. Unless Panagra is put in position to meet this new setup, Braniff may well become the principal American airline to the west coast of South America and, by improvements in its route, which will doubtless be effected in the course of time, the principal American operator to all of South America. This decision with its far-reaching consequences to the American flag South American route pattern comes at a time when not less than six foreign flag operators, paralleling all or part of Panagra's route and with projected terminals in the United States, are well advanced in their plans:

An Argentine line (Dodero) up the West Coast from B.A.

A Chilean line (CSAV) paralleling our route from Santiago with terminal in New York

A British line between New York and B.A. via the West Coast

A Canadian/Peruvian line operating between Lima and Canadian points via the United States

AVIANCA, a Colombian company, 48% owned by Pan American, which has extended its route to Ecuador, and is applying for extension northward to the United States

TACA which has extended from Colombia to Ecuador and is extending to Peru, and has applied to come to the United States

Bad as the situation is for Panagra, the Civil Aeronautics Board has left the door open for Panagra to make a battle for its existence. The omission of the decision to authorize any direct route between Balboa and the east coast of the United States and the denial of Eastern's and Colonial's applications, coupled with the language of the decision itself leaves no doubt that it is the intention to award this route to Panagra if it is applied for promptly. If this opportunity is lost there can be little doubt that the route will be granted to some other carrier, thus giving

them a foothold on the South American continent. Even since the Board's decision in 525 Colonial has moved for reconsideration of its application for the New York/Balboa route on the ground among others that the granting of the route to Colonial would "relieve the Board of further appeasement efforts as mediator between Pan American and Panagra."

2600

PAA-5719

[fol. 607] We believe that in the light of this decision the pros and cons of Panagra's extension previously considered are hardly open for further discussion. The Civil Aeronautics Board with the approval of the President of the United States has decided that the extension is in the public interest as it is obviously in the interest of the joint owners of Panagra. It is manifestly in the public interest as in Panagra's interest that the west coast countries of South America should have an American flag air service equal to that provided on the east coast. This can only be done by Panagra's extending to the United States in the same way that Pan American has so extended or is seeking to extend all of its own routes and those of all of its affiliates except Panagra. That the decision had this clearly in mind in granting Pan American's extension between San Juan and New York clearly appears from the language of the decision where referring to a Panagra extension, it is stated: "If such an extension were made to Miami or New York, or some other point on the eastern seaboard, the eastern part of the country would be afforded a fast direct service to the west coast of South America and to Buenos Aires."

We need not review Panagra's record of accomplishment nor dwell upon the value of our joint property. We feel that unless immediate action is taken along the lines indicated our joint investment of capital and of eighteen years of pioneering and development work by which we have built up a great international trunk line will be seriously damaged if not destroyed.

We most earnestly urge that you cooperate with us in enabling Panagra to secure this extension so vital to its

success in meeting the very difficult situation which lies ahead of us.

Very truly yours,

W. R. GRACE & CO.

/s/ J. P. GRACE, JR.
President

Enclosures:
Extracts from Decision
CAB Docket 525
Extracts from Colonial's
petition for reconsideration

PAA 5720

[fol. 608]

GOVERNMENT'S EXHIBIT 258

EXTRACTS FROM
MINUTES OF PAN AMERICAN AIRWAYS
CORPORATION

Board of Directors
June 4, 1946

The Directors took up the request of W. R. Grace & Co. that this Corporation, as owner of half of the stock of Pan American-Grace Airways, should take action to authorize an application by that Company for an amendment of its certificate of convenience and necessity so as to extend its route from Balboa to New York and/or Miami.

Grace's request was discussed at length. Several Directors to whom representatives of W. R. Grace & Co. had presented that Company's views stated to the meeting the various arguments advanced by Grace. These were thoroughly considered, particularly in the light of the competitive situation created by the certification of Braniff Airways, as a result of the action of the President, as a second American-flag air carrier to Lima, Rio de Janeiro and Buenos Aires and probably foreign-flag competition.

After such discussion, upon motion duly made and seconded, it was unanimously:

RESOLVED, that in the opinion of this Board an extension of Pan American-Grace Airways, Inc. from Balboa to Miami or New York would not be in the best interests of Pan American-Grace Airways, Inc.; and likewise would not be in the best interests of this Corporation or its stockholders, and that consequently the representatives of this Corporation on the Board of Directors of Pan American-Grace Airways, Inc. be instructed not to take action authorizing an application for such an extension by that Company.

GR-2951

G007857

[fol. 609]

GOVERNMENT'S EXHIBIT 259

Minutes of Adjourned Special Meeting
of the Board of Directors of Pan American-Grace Airways, Inc., held at Room F, 66th Floor, No. 135 East 42nd Street, New York, N. Y. on the 5th day of June, 1946, at 1:00 o'clock in the afternoon.

PRESENT: Messrs. William F. Cogswell
Howard B. Dean
A. Garni
H. Preston Morris
R. H. Patchin
Harold J. Roig

being a quorum of the Board.

Messrs. Henry J. Friendly, J. Clawson Roop, Samuel F. Pryor, Jr. and J. A. Woods were also present.

The President referred to the decision of the Civil Aeronautics Board in the Latin American Route case, Docket 525. He referred specifically to the following statements in the Board's decision:

"The importance of providing service between the traffic generating areas of the northeast is recognized. It should be pointed out, however, that in extending Pan American from New York to San Juan, this area will be afforded a substantially improved service to the Caribbean area and to the east coast of South America. In addition, we have long recognized the desirability of an application to the Board which would permit a determination of the question of extending Pan American-Grace Airways from its present terminal at Balboa to a point in the United States. If such an extension were made to Miami or New York, or some other point on the eastern seaboard, the eastern part of the country would be afforded a fast direct service to the west coast of South America and to Buenos Aires.

Such an extension of Panagra was the subject of an investigation instituted by the Board in 1942, which terminated in a dismissal on the ground that the Board [fol. 610] was without power to accomplish the compulsory extension of Panagra to the United States. This case has recently been remanded to the Board by the Circuit Court of Appeals for the Second Circuit for further consideration.

Before instituting the *Panagra Terminal Investigation* the Board explored the possibility of working out a voluntary settlement of the controversy between Pan American and W. R. Grace & Co. Several conferences were held with both parties. Finally the Board suggested that the parties enter into an agreement under which sufficient shares of the two stockholders would be transferred to an independent voting trustee or trustees to permit the election to the Panagra board of an independent director or directors, or under which such an independent public director or directors might otherwise be appointed, who would be able to break the deadlock resulting from the equal division of ownership of Panagra stock between the two companies. After it became apparent that no satisfactory voluntary agreement could be reached by the parties and

that all efforts to mediate the differences between them would be unsuccessful, the Board issued its order instituting the *Panagra Terminal Investigation* proceeding.

In the *Panagra Terminal Investigation* the Board took note of the unhealthy condition existing in the internal affairs of that company by reason of its joint ownership and control by Pan American and W. R. Grace & Co., and pointed out that deadlock between the two interests equally represented in the ownership of Panagra was likely to occur again in view of the conflicting interests of the two co-owners.

In view of the facts above outlined we feel that the joint owners should in the public interest cooperatively enable Panagra to apply for access to the east coast of the United States."

Mr. Roig stated that this meeting had been called to enable the joint owners cooperatively to enable Panagra to apply for access to the East Coast of the United States in accordance with the said opinion.

[fol. 611] Mr. Garni thereupon offered the following resolution which was seconded by Mr. Patchin:

WHEREAS in the decision of the C.A.B. approved by the President of the United States it is stated "we feel that the joint owners should in the public interest cooperatively enable Panagra to apply for access to the east coast of the United States", and

WHEREAS the joint owners of this company, Pan American Airways Corporation and W. R. Grace & Co., are desirous of complying with this decision of the C.A.B. and of the President of the United States,

NOW THEREFORE BE IT

RESOLVED that the President of this corporation be and he hereby is authorized and directed to file with the Civil Aeronautics Board in the name and on behalf of this corporation, application for appropriate amendment of the Certificate of Convenience and Necess-

sity of this corporation so as to authorize extension of its route from Balboa to New York via Havana, Cuba and/or Miami, Florida.

RESOLVED FURTHER that, in the discretion of the President, such application may contain an expression of willingness on the part of this corporation that the amendment of its Certificate of Convenience and Necessity, in lieu of the extension requested, provide for service to such other point on the east coast of the United States and via such intermediate points as the Civil Aeronautics Board might require.

Mr. Garni stated that it was the desire of W. R. Grace & Co. to comply with the decision of the C. A. B. and the President of the United States and that the resolution he was offering, and which the Grace directors were prepared to vote for, was intended to implement such compliance. He stated that in his opinion the most satisfactory route from the point of view of the public interest and of Pan- [fol. 612] agra which would comply with the foregoing should be from Balboa to New York via Havana, Cuba and/or Miami, Florida, as proposed in the resolution and he recommended that we apply for that route. He stated that he was, however, entirely willing to consider any reasonable amendment with regard to the route proposed in the resolution which Pan American might consider to constitute more appropriate or acceptable compliance with the decision.

Mr. Dean stated that the subject matter of Mr. Garni's resolution had been discussed at great length at a meeting of the Board of Directors of Pan American Airways Corporation held on the previous day, and that after such discussion the Pan American Directors had unanimously adopted the following resolution:

RESOLVED that in the opinion of this Board an extension of Pan American-Grace Airways Inc. from Balboa to Miami, or New York, would not be in the best interests of Pan American-Grace Airways Inc. and likewise would not be in the best interests of this corporation or its stockholders, and that consequently the

representatives of this corporation on the Board of Directors of Pan American Airways Inc. be instructed not to take action authorizing an application for such an extension by that company.

Mr. Dean stated that as a matter of record he wished to make it clear that in the opinion of Pan American the portions of the C.A.B. decision which were quoted by Mr. Roig had not been approved by the President and that the President had merely approved the Board's order and the certificates. Mr. Dean on behalf of the Pan American Directors and Pan American Airways Inc. urged that consideration be given to an arrangement whereby Panagra's planes might operate over one or more Pan American routes north [fol: 613] of the Canal Zone.

Mr. Garni's resolution was thereupon put to a vote and failed of passage. Messrs. Garni, Roig, Patchin and Woods voting in favor of such resolution and Messrs. Dean, Pryor, Roop and Morris in opposition thereto.

Discussion of Mr. Dean's proposal with respect to the operation of Panagra's planes over one or more Pan American routes north of the Canal Zone, was thereupon had. The Directors who had voted in favor of Mr. Garni's resolution expressed a desire to confer among themselves with respect to this proposal and the meeting thereupon adjourned to June 10, 1946, at 9:30 o'clock in the forenoon.

HJR

Chairman of the Meeting ●

/s/ W. F. Cogswell

Secretary of the Meeting

GOVERNMENT'S EXHIBIT 260

A.G.
J.P.G. J.R.
ABS

Minutes of an Adjourned Special Meeting of the Board of Directors of Pan American-Grace Airways, Inc. held at the office of Pan American Airways, Inc., 135 East 42nd Street, New York, N. Y., on the 11th day of June, 1946 at 9:30 o'clock in the forenoon.

PRESENT:

Messrs. Howard B Dean
A Garni
H Preston Morris
R H Patchin
Samuel F Pryor, Jr
Harold J Roig
J Clawson Roop
J A Woods

Mr. Henry J Friendly was also present.

Mr. H J Roig, President of the corporation, presided. Mr. W F Cogswell, Secretary, acted as Secretary of the meeting.

The President stated that as a result of further consideration and discussion, the Directors who had voted in favor of Mr. Garni's resolution felt that it would be worthwhile to explore the suggestion made by Mr. Dean and see whether a mutually satisfactory agreement could be worked out between Pan American-Grace Airways Inc. and Pan American. It was decided that the company should instruct counsel to endeavor to work out such an agreement with counsel for Pan American for further consideration by the Board of Directors.

The meeting thereupon adjourned subject to the call of the Chair.

Chairman of the Meeting

Secretary of the Meeting

[fol. 615]

GOVERNMENT'S EXHIBIT 261

Board of Directors

July 2, 1946

Mr. Trippe reported on the status of negotiations with W. R. Grace & Co. for a settlement of the controversy arising out of that company's desire that Pan American-Grace Airways, Inc. be extended to the continental United States. At the Board meeting of Pan American-Grace Airways, Inc. held on June 5, 1946, the Pan American representatives had proposed as a basis for settlement a long-term arrangement whereby Pan American-Grace aircraft and flight crews would fly north of the Canal Zone under charter over the certificated routes of Pan American Airways, Inc. so as to permit through service between the continental United States and points on Pan American-Grace's route in South America. Drafts recently presented on behalf of W. R. Grace & Co. were based on a completely different theory, namely, that Pan American-Grace would itself operate its aircraft north of the Canal Zone over Pan American's certificate, simply paying to Pan American a share of the profits of the operation.

Mr. Trippe then asked Mr. Bush to report certain conversations which he had had with Mr. Adolf Garni, Co-Chairman of the Board of W. R. Grace & Co.

Mr. Bush stated that the first of these conversations had occurred shortly after the Pan American Board of Directors, at their meeting on June 4, had, by unanimous vote, adopted a resolution against the representatives of this Corporation on the Board of Directors of Pan American-Grace Airways, Inc. taking action to authorize an application for an extension by Pan American-Grace Airways, Inc. GR-2955

G007861

[fol. 616] to the continental United States. Mr. Garni had requested Mr. Bush to come to the former's office at W. R. Grace & Co. Mr. Garni had stated at this meeting that while others in W. R. Grace & Co. favored the proposed method of settling the controversy through an interchange agreement, he felt that a sale of the interest in Pan American

Grace Airways, Inc., held by W. R. Grace & Co. might be preferable as a permanent solution. Mr. Bush had reported this conversation to Mr. Dean. Mr. Dean had felt that, in view of the pending negotiations for an interchange agreement, it would not be wise to pursue Mr. Garni's suggestion. However, at Mr. Dean's request, Mr. Bush had had a further talk yesterday with Mr. Garni at which Mr. Garni named a price of 700,000 shares of Pan American Airways Corporation as a fair consideration for W. R. Grace & Co.'s interest in Pan American-Grace Airways, Inc., which Mr. Garni valued at \$14,000,000.

Mr. Trippe reported that the Executive Committee had discussed the basis on which Mr. Garni had arrived at this figure and other data relating to the value of Pan American-Grace Airways, Inc. The Committee had decided to recommend that, in view of the difficulties that were being encountered in working out an interchange agreement, the Board of Directors authorize the purchase of W. R. Grace & Co.'s holdings in Pan American-Grace proposed by Mr. Garni and that in view of the difference of opinion as to the value of these holdings, if the representatives of the parties were unable to agree upon a figure, a suitable way to determine any difference of opinion, and one which

GR-2956 G007862

[fol. 617] could hardly be unacceptable. W. R. Grace & Co., would be that, after both parties had had an opportunity to present the necessary data, the figure should be set by Judge John J. Burns, who had been acting as attorney for W. R. Grace & Co. in this controversy. It was felt that Judge Burns' reputation and judicial qualities were such that the Corporation could afford to leave the matter to him for settlement.

Upon motion, duly made and seconded, it was thereupon unanimously

RESOLVED, that the representatives of this Corporation be authorized to enter into a contract with W. R. Grace & Co. for the purchase of the latter's interest in Pan American-Grace Airways, Inc., as proposed by Mr. Adolf Garni of W. R. Grace & Co., at a price to be negotiated or, if an agreement upon such

price could not be reached within fifteen days after signature of the contract, then at a price to be settled by John J. Burns, Esq., or, in the event of his inability to act, by such other person as was mutually agreed upon, such contract to be subject to any necessary approval by the Civil Aeronautics Board.

While the general feeling was that the Grace proposal with respect to interchange constituted such a departure from the proposal originally made by Pan American (which was approved in principle by this meeting) as to be unacceptable, it was determined to take no action with respect to the Grace proposal pending the outcome of the negotiations for the purchase of W. R. Grace & Co.'s interest in Pan American-Grace Airways authorized by this meeting.

GR-2957

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[fol. 618]

GOVERNMENT'S EXHIBIT 262

July 3, 1946

COPY

Directors' Meeting

The regular meeting of the Board of Directors of W. R. Grace & Co. was held at the company's office, No. 7 Hanover Square, New York City, on July 3, 1946, at 11:30 O'clock AM.

PRESENT:

Messrs. M. Bouvier
Gale H. Carter
Geo. Doubleday
W. G. Holloway
A. Garni
Harold J. Roig
J. H. H. Phipps

E. A. Eyre
 J. T. Kirby
 J. P. Grace, Jr.
 Andrew B. Shea

being a quorum of the Board.

Mr. Holloway, Chairman, presided. Mr. Cogswell, Secretary, acted as such.

.....

There was reported to the meeting discussions being held with Pan American Airways in connection with contract proposed by them to bring Panagra into the United States over the former's route and also indication on the part of Pan American Airways of their desire to acquire our stock in Panagra issuing their own stock in exchange.

The following resolution was duly made and seconded:

RESOLVED that it is the sense of this meeting that we continue to attempt to negotiate a contract with Pan American Airways as proposed by them to bring Panagra into the United States and advise them that we are not interested in the sale to them of our Panagra stock.

Extended discussion ensued. Before completion of the vote on this resolution the meeting turned to other business

Mr. Layman thereupon joined the meeting and there was further discussion on the aforementioned resolution in respect to Panagra. Vote then being completed, such resolution was adopted.

There being no further business, the meeting adjourned.

A true record.

.....
 Chairman

.....
 Secretary

[fol. 619]

GOVERNMENT'S EXHIBIT 263

59 WALL STREET, NEW YORK

CABLE ADDRESS "SHIPLEY-NEW YORK"

BROWN BROTHERS HARRIMAN & CO.

BUSINESS ESTABLISHED 1818

PRIVATE BANKERS

July 8, 1946.

Mr. Howard B. Dean,
Pan American Airways System,
135 East 42nd Street,
New York 17, New York

Dear Howard:

I thought it might be useful to have in my files a memorandum outlining briefly my talks with Adolf Garmi. I hand you herewith a copy of the memorandum.

Sincerely yours,

Pres.

Prescott S. Bush.

Enc.

PSB:K.

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[fol. 620]

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*Memorandum.**Subject:* P. A. A.—GRACE.

At the P. A. A. directors' meeting on June 4th the request of Grace interests in Panagra that P. A. A. join in an application to extend the Panagra route to North

America was considered. Unanimously, the P. A. A. directors voted to disapprove that request.

On the following day Mr. Adolf Garni, of W. R. Grace & Co., asked me to go to his office, which I did. He said that personally he felt that a sale of Grace interests in Panagra to P. A. A. was desirable; that he did not like the proposal of an "interchange" contract and did not think it would work out satisfactorily, although Mr. Roig strongly favored that course. He said he had been giving some consideration to the price which Grace might receive for its 50% in Panagra. He showed me a lot of figures which he had prepared comparing the value of Panagra stock to the stock of various airlines quoted in the open markets. On the basis of these calculations he thought that the price of 700,000 shares of P. A. A. stock was fair for the Grace 50% interests in Panagra.

I reported this conversation to Howard Dean, of P. A. A., on the following morning.

At the July meeting of P. A. A. directors, Mr. Trippe informed us of the contract negotiations indicating that our representatives and the Grace representatives were working on a contract which would permit Panagra to fly north over the P. A. A. certificated route. After a rather full explanation of the course of the negotiations on this contract he asked me to explain to the directors the nature of my conversations with Mr. Garni. This I did.

Mr. Trippe then informed the directors that the Executive Committee that morning had considered the Garni proposal. Our management had presented some figures to the Executive Committee indicating a much lower price. Really there were two meetings—

one on June 5 the other on July 1. 2111 1 PAA 1/4/55

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[fol. 621] for Panagra stock as being of some possible interest to P. A. A. The Committee thought it desirable to present to the Board the following proposition for consideration, i. e., that P. A. A. enter into an agreement with the Grace interests providing that the two interests negotiate on price and terms for the sale of the Grace interests

in Panagra. If, after a period of fifteen days no agreement could be reached, then both sides would refer the case to Mr. John Burns, who would make a final decision as to the price and terms. His decision would be subject only to C. A. B. approval and would be binding on both Grace and P. A. A.

At the suggestion of Mr. Trippe the Board asked me to present this proposition to Mr. Garni immediately. This I did the following morning (July 3rd): W. R. Grace & Co. had a Board meeting that day and in the afternoon Mr. Garni telephoned to me. He said that the Grace Board had asked him to say the following to me:

- 1—They were very much disappointed that the contract negotiations had been sidetracked and that this proposal of sale had been introduced at this time. I reminded him that the proposal came from him and that it was presented to P. A. A. directors at the first opportunity, namely, the next meeting following our conversations.
- 2—He said that the Grace interests were not at all interested in the sale.
- 3—On their behalf he urged that negotiations on the contract should proceed at once. They had been led to understand from Mr. Friendly that the contract might receive favorable consideration. They were very much disappointed at the delay—felt that time was of the essence.

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PAA 4006

[fol. 622] I immediately telephoned Howard Dean and reported the conversation with Mr. Garni at 3:15 on July 3rd.

In connection with all of the above it must be said for Mr. Garni that he indicated in our conversations that he was talking as an individual, that he was not speaking for the Grace interests. Nevertheless, it is important to note that he initiated these conversations of his own volition.

PAA 4007

[fol. 623]

GOVERNMENT'S EXHIBIT 264

Executive Committee

July 9, 1946

The Chairman reported to the meeting on current conference with W. R. Grace & Co. After discussion, the meeting approved the submission by Pan American Airways, Inc. of a proposal for inter-change of equipment arrangement with Pan American-Grace Airways, Inc. on the basis of cost plus return on investment.

Executive Committee

July 16, 1946

The Chairman reported to the meeting on current conferences with W. R. Grace & Co.

Executive Committee

July 23, 1946

The Chairman reported to the meeting on the status of current conferences on proposed arrangement between Pan American-Grace Airways, Inc. and Pan American Airways, Inc. for interchange of equipment.

Executive Committee

July 30, 1946

Upon motion, duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the President of this Corporation be, and he hereby is, authorized, in the name and on
GR-2958 G007864

[fol. 624] behalf of this Corporation, and under its corporate seal or otherwise, to execute and deliver an agreement, in the form or substantially the form submitted to this meeting, with such changes therein as said officer may be the execution thereof approve, between W. R. Grace & Co. and this Corporation relating to the agreement between Pan American Air-

ways, Inc. and Pan American-Grace Airways, Inc. concerning the operation of the aircraft of Pan American-Grace Airways, Inc. over certain routes of Pan American Airways, Inc. north of the Canal Zone and other matters, said contract to be subject to approval by counsel for this Corporation, and that the Secretary of this Corporation be, and he hereby is, authorized to affix the seal of this Corporation to such agreement so executed and to attest such seal so affixed.

Board of Directors
August 6, 1946

Upon motion, duly made and seconded, the following resolution was adopted:

RESOLVED, that the agreement dated July 30, 1946 heretofore entered into between W. R. Grace & Co. and this Corporation, copy of which has been submitted to this meeting, relating to the agreement between Pan American Airways, Inc. and Pan American-Grace Airways, Inc. concerning the operation of the aircraft of Pan American-Grace Airways, Inc. over certain routes of Pan American Airways, Inc. north of the Canal Zone and other matters, and the action of J. T. Trippe, President of this Corporation, in heretofore executing and delivering said agreement in the name and on behalf of this Corporation, and the action of H. Preston Morris, Secretary of this Corporation, in annexing the seal of this Corporation to such agreement so executed and attesting such seal so affixed, be, and the same hereby are, ratified, approved, confirmed and adopted.

GR-2959

G007865

[fol. 625]

GOVERNMENT'S EXHIBIT 265

EXTRACTS FROM
MINUTES OF PAN AMERICAN AIRWAYS, INC.

Executive Committee

July 30, 1946

Upon motion, duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the President of this Corporation be, and he hereby is, authorized, in the name and on behalf of this Corporation, and under its corporate seal or otherwise, to execute and deliver an agreement, in the form or substantially the form submitted to this meeting, with such changes therein as said officer may by the execution thereof approve, between Pan American-Grace Airways, Inc. and this Corporation relating to the operation of aircraft of Pan American-Grace Airways, Inc. over routes of this Company north of the Canal Zone and other matters, said agreement to be subject to approval by counsel for this Corporation and to become effective upon approval thereof by the Civil Aeronautics Board, and that the Secretary of this Corporation be, and he hereby is, authorized to affix the seal of this Corporation to such agreement so executed and to attest such seal so affixed.

Board of Directors

August 6, 1946

The minutes of the meetings of the Executive Committee held on July 9, 16, 23 and 30, 1946 and August 6, 1946 and the action and proceedings stated therein taken by said meetings (except as to those matters with respect to which action by the Board of Directors was recommended) were approved and ratified.

[fol. 626]

GOVERNMENT'S EXHIBIT 266

OFFICE OF GENERAL SALES MANAGER

FILE COPY

NOT TO BE REMOVED FROM FILE

JEN

AGREEMENT

BETWEEN

PAN AMERICAN AIRWAYS, INC.

AND

PAN AMERICAN-GRACE AIRWAYS, INC.

DATED JULY 30, 1946

PAA 663

12-3-54

RLA

[fol. 627] AGREEMENT made and entered into this 30th day of July, 1946 by and between PAN AMERICAN AIRWAYS, INC., a New York corporation (hereinafter called PAA), and PAN AMERICAN GRACE AIRWAYS, INC., a Delaware corporation (hereinafter called Panagra):

RECITALS

A. PAA holds various certificates of convenience and necessity for routes between the continental United States and the Canal Zone, and Panagra holds a certificate of convenience and necessity for a route between the Canal Zone and various points in South America.

B. A substantial amount of the passenger, air express, mail and cargo traffic proceeding between the continental United States and the Canal Zone originates at or is destined to points on Panagra's certificated route in South America.

C. PAA and Panagra believe it is in the public interest that such through traffic should be enabled to proceed by fast direct flight without change of plane at the Canal Zone and that the making of arrangements to that end is desirable in order that they may compete effectively with foreign-flag and other American-flag carriers operating or contemplating operations between the continental United States and the countries of South America which Panagra is certificated to serve.

D. Because of the foregoing and a desire to settle outstanding differences, PAA and Panagra desire to make arrangements, as hereinafter set forth, whereby PAA will charter aircraft of Panagra to be operated with Panagra flight crews over PAA's certificated routes between the Canal Zone and the continental United States.

PAA 664
12-3-54
RLA

[fol. 628] In Witness whereof each of the parties hereto has caused this agreement to be executed at New York, New York, in its respective corporate name and its respective corporate seal to be hereunto affixed and attested by its respective officer or officers thereunto duly authorized as of the day and year first above written.

PAN AMERICAN AIRWAYS, INC.

By J. T. TRIPPE
J. T. TRIPPE, President

Attest

H. PRESTON MORRIS
H. PRESTON MORRIS, Secretary

PAN AMERICAN-GRACE AIRWAYS, INC.

By HAROLD J. ROIG
HAROLD J. ROIG, President

Attest

W. F. COGSWELL
W. F. COGSWELL, Secretary

PAA 683

AGREEMENT
between
W. R. GRACE & CO.
AND
PAN AMERICAN AIRWAYS CORPORATION

Dated July 30, 1946

PAA—4937
2/25/55 mfr

[fol. 630] AGREEMENT made and entered into this 30th day of July, 1946 by and between W. R. GRACE & CO., a Connecticut corporation (hereinafter called Grace), and PAN AMERICAN AIRWAYS CORPORATION, a Delaware corporation (hereinafter called Pan American).

RECITALS

A. Grace is the owner of 50% of the stock of Pan American-Grace Airways, Inc., a Delaware corporation (hereinafter called Panagra).

B. Pan American is the owner of 50% of the stock of Panagra and of 100% of the stock of Pan American Airways, Inc., a New York corporation (hereinafter called PAA).

C. Panagra and PAA have entered into a certain contract dated July 30, 1946 (sometimes hereinafter called the Panagra-PAA contract).

TERMS OF AGREEMENT

Now, therefore, in consideration of the mutual covenants herein contained, it is agreed as follows:

1. *Ratification of Panagra-PAA Contract.* Grace, as owner of 50% of the stock of Panagra, and Pan American, as owner of 50% of the stock of Panagra and all of the stock of PAA, ratify the provisions of the Panagra-PAA contract, and each agrees to use its best efforts to facilitate the carrying out of said contract in accordance with the terms thereof and not to exercise its rights as owner of voting shares in such a manner as to interfere with or impede the performance of said contract in accordance with its terms.

2. *Representation of Panagra in Matters under Panagra-PAA Contract.* Pan American agrees that any action to
3491 PAA-4938

[fol. 631] make any claim, to take any position, or to enforce any rights of Panagra under the Panagra-PAA con-

tract may be taken on behalf of Panagra by its President, or if the President shall deem that such action requires authority from Panagra's Board of Directors, Pan American will cause its representatives on the Board of Directors of Panagra to attend a meeting for the purpose of furnishing a quorum and at such meeting to abstain from any action which would cause a deadlock within the said Board of Directors with respect to such action; provided, however, that the foregoing shall not be deemed to withdraw from the Board of Directors of Panagra its function of determining such questions of general business policy relating to the conduct of Panagra's affairs (such as the purchase of equipment, the establishment of equipment reserves and the fixing of depreciation rates) as are determined by a board of directors in accordance with law or normal corporate practice.

3. *Management of Panagra.* (a) Pan American agrees that during the term of this agreement it will cast its votes for the election as President of Panagra of one of the directors of Panagra nominated by Grace and approved by Pan American, which approval shall not be unreasonably withheld. The President of Panagra shall be in responsible charge of its management. If at any time Pan American shall be dissatisfied with the conduct of the affairs of Panagra by the President so elected, Pan American shall give notice to Grace stating the respects in which it is dissatisfied. Grace shall thereupon take appropriate steps to remedy the matters set forth in Pan American's notice, unless Grace shall be of the opinion that Pan American's dissatisfaction is unreasonable, in which event the matter shall be referred to arbitration as provided in paragraph 9 of this agreement. If Pan American prevails in such arbitration, Grace shall be bound to take the action recommended by the arbitrators and thereafter diligently proceed with the same. If the arbitrators shall have found, pursuant to a request of Pan American, that the then President of Panagra should resign, Grace will take appropriate action to procure such resignation and nominate his successor. The arbitrators may, upon the failure of Grace to

[fol. 632] take the action recommended by the arbitrators, relieve Pan American of further obligation under this subparagraph (a) of paragraph 3.

(b) From time to time the President of Panagra shall nominate, with the approval of Pan American, which shall not be unreasonably withheld, a person to hold the office of Vice President-Operations of Panagra and the parties will cause such person to be elected to such office.

(c) If a vacancy shall arise in the Board of Directors of Panagra at any time by reason of the death, resignation or inability to act of a director of Panagra who shall have been nominated by one of the parties, both of the parties will cooperate to cause such vacancy to be filled by a person nominated by the party who shall have nominated the director who shall so have died, resigned or become unable to act.

4. *Services of PAA as Sales Agent for Panagra.* If Grace shall at any time be of the opinion that the continuance of the services of PAA as general sales agent for Panagra under paragraph 10 of the Panagra-PAA contract is unsatisfactory and that the best interests of Panagra require that other arrangements for sales representation of Panagra should be made, Grace shall give notice thereof to Pan American, stating in detail the defaults complained of. Pan American shall thereupon cause PAA to take appropriate action to remedy such defaults unless Pan American shall dispute the defaults complained of, in which event the matter shall be referred to arbitration as provided in paragraph 9 of this agreement. If the arbitration determines that Grace's complaints are well founded, Pan American shall be bound to cause PAA to take the action recommended by the arbitrators and thereafter diligently proceed with the same. The arbitrators may, upon the failure of PAA to take the action recommended by the arbitrators, direct that PAA's sales agency should be terminated and that other plans for sales representation of Panagra should be made.

5. *Effect of Cancellation of PAA's Certificates.* In the event of violation by PAA of its obligations under paragraph 3491. PAA-4940

[fol. 633] graph 18 of the Panagra-PAA contract (whereby PAA agrees that, except with Panagra's written consent, it will not transfer or abandon any of its certificates covering routes over which Panagra aircraft may be operated under charter to PAA or seek to modify such certificate or certificates in any manner which would prevent or adversely affect the operations contemplated thereunder) or in the event that any such certificate of PAA is canceled by action of the Civil Aeronautics Board or otherwise and such cancellation becomes final, Pan American will consent to Panagra's making application to amend its own certificate so as to include the route for which PAA has so violated its obligations or for which PAA's certificate has been so cancelled.

6. *Pending Litigations.* The parties will forthwith make suitable application to the Supreme Court of the United States and to the Civil Aeronautics Board requesting that the proceedings now pending in the said Court and before the said Board relating to the controversies between them shall be kept *in statu quo* until the Civil Aeronautics Board shall have made a final order in the proceeding relating to the Panagra-PAA contract contemplated by paragraph 20 thereof and, if a timely proceeding to review any such order shall be instituted, until such proceeding for review shall have been finally determined. Upon an order of the Civil Aeronautics Board approving said contract having been made and become final, the parties will make appropriate applications for the dismissal of all such proceedings.

7. *Term.* Except for paragraphs 6 and 8, which shall become effective immediately, this agreement shall take effect simultaneously with the Panagra-PAA contract and shall remain in effect during the term of such contract.

8. *Non-prejudice.* If this agreement does not become effective or if, having become effective, this agreement

should be terminated or canceled, the negotiation and the terms of this agreement and all applications filed and acts done hereunder shall be without prejudice to the rights or future position of the parties.

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PAA-4941

[fol. 634] 9. *Arbitration.* Any and all disputes as to the construction or operation of this agreement shall be submitted to arbitration pursuant to the rules of the American Arbitration Association having general application in the manner hereinafter provided. The party requesting arbitration shall notify the other party naming its arbitrator in the notice. The other party shall appoint an arbitrator within ten (10) days after the receipt of such notice. Within ten (10) days after such appointment, the two arbitrators shall appoint a third arbitrator and the decision or the award of any two of such three arbitrators shall be final, binding and conclusive upon the parties. If either party fails to appoint the arbitrator to be appointed by such party, or if the arbitrators appointed by or for the respective parties shall fail to appoint such third arbitrator, then and in either such event such then unappointed arbitrator shall be appointed by the then President of the American Arbitration Association or in the event such President shall be disqualified by reason of his association with either party or otherwise, then by the next highest ranking official of such Association. Any such arbitration shall be conducted in accordance with the law of the State of New York and held in New York City, New York, unless the parties shall otherwise agree in writing.

10. *Termination of Prior Agreement.* The agreement between the parties dated February 14, 1939, shall be terminated upon this agreement becoming effective.

11. *General Provisions.* (a) Nothing in this agreement shall be deemed to require either of the parties to take any action in violation of any applicable law, regulation, or order.

(b) The various headings herein and the grouping of the provisions of this agreement into separate paragraphs shall not be construed to limit or restrict the meaning or application of any provision hereof, and are for the purpose of convenience only.

(c) All references in this agreement to the Civil Aeronautics Board shall include any Federal agency having jurisdiction similar to that now exercised by said Board.

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PAA-4942

[fol. 635] In witness whereof each of the parties hereto has caused this agreement to be executed in its respective corporate name and its respective corporate seal to be hereunto affixed and attested by its respective officer or officers thereunto duly authorized as of the day and year first above written.

W. R. GRACE & Co.

By J. P. GRACE, JR.

J. P. Grace, Jr., President

Attest

W. F. COGSWELL

W. F. Cogswell, Secretary.

PAN AMERICAN AIRWAYS CORPORATION

By J. T. TRIPPE

J. T. Trippe, President

Attest

H. PRESTON MORRIS

H. Preston Morris, Secretary

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PAA-4943

[fol. 636]

GOVERNMENT'S EXHIBIT 268

Correspondence
File 2

PAA

PAN-AMERICAN WORLD AIRWAYS SYSTEM

CHRYSLER BUILDING, 135 EAST 42ND STREET,
NEW YORK 17, N. Y.

EXECUTIVE OFFICERS

August 19, 1946

Hon. James M. Landis, Chairman,
Civil Aeronautics Board
Washington 25, D. C.

Dear Sir:

Since the decision of the Circuit Court of Appeals for the Second Circuit remanding the Panagra Terminal Investigation, Docket 779, for further proceedings before the Civil Aeronautics Board and the order of the United States Supreme Court of June 10, 1946 granting a writ of certiorari to review that decision, agreements have been reached between W. R. Grace & Co. and Pan American Airways Corporation and between Pan American Airways, Inc. and Pan American Grace Airways, Inc. (Panagra) which, upon becoming effective, will dispose of the controversy between Pan American and W. R. Grace & Co. which gave rise to CAB Docket 779 as well as to CAB Dockets 707 and 744.

On August 5, 1946, Pan American Airways, Inc. filed an application under Section 412 of the Civil Aeronautics Act for approval of the Pan American-Panagra agreement. The agreement between Grace and Pan American Airways Corporation was also annexed to the application for the information of the Board since it relates to the subject matter of the agreement between Pan American and Panagra and its effectiveness is dependent on the approval of such agreement. Paragraph 6 of the Grace-Pan American agreement provides:

"6. *Pending Litigations* The parties will forthwith make suitable application to the Supreme Court of the United States and to the Civil Aeronautics Board requesting that the proceedings now pending in the said Court and before the said Board relating to the controversies between them shall be kept in *statu quo* until the Civil Aeronautics Board shall have made a final order in the proceeding relating to the Panagra-PAA contract contemplated by paragraph 20 thereof and, if a timely proceeding to review any such order shall be instituted, until such proceeding for review shall have been finally determined. Upon an order of the Civil Aeronautics Board approving said contract having been made and become final, the parties will make appropriate applications for the dismissal of all such proceedings.

Under the terms of these agreements, the subject matter of the controversies presented in CAB Dockets 779, 707 and 744 will be disposed of and application for dismissal

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PAA 4072

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YK

[fol. 637] made both by Pan American and by Grace upon the Panagra-Pan American agreement being approved by order of the Civil Aeronautics Board and such order becoming final. It is respectfully requested, therefore, that CAB Dockets 779, 707 and 744 be kept in *statu quo* until the Board shall have made a final order in the proceeding relating to the Panagra-Pan American agreement and any timely review of such order finally determined.

Very truly yours,

(signed) HENRY J. FRIENDLY

Counsel for Pan American Airways
Corporation and Pan American
Airways, Inc.

(signed) CAHILL, GORDON, BAILEY & REISSEL
Counsel for W. R. Grace & Co.

Pan American-Grace Airways, Inc.
joins in the foregoing request.

GERHARD A. GESELL

* Counsel for Pan American-Grace
Airways, Inc.

Copies to all parties.

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PAA 4073

[fol. 638]

GOVERNMENT'S EXHIBIT 269

EXCERPTS FROM MEMORANDUM AGREEMENT
REGARDING SERVICES RENDERED AND TO BE
RENDERED TO PANAGRA BY THE PARENT
COMPANIES AND COMPENSATION THEREFOR

This memorandum sets forth the understanding between Pan American-Grace Airways, Inc. (herein called "Panagra"), Pan American Airways, Inc., (herein called "Pan American"), and W. R. Grace & Co., (herein called "Grace"), regarding certain services to be performed, the method of determining compensation for such services and the amount to be paid for certain of such services for 1947-1948.

2. Panagra shall act as General Sales Agent in Ecuador, Peru, Bolivia and Chile for Pan American and for each of Pan American's affiliated carriers in those of said countries for which said affiliated carrier shall have at the time appointed Pan American and its affiliated carriers general sales agent, except that it shall not so act for Avianca in Ecuador. Panagra may at any time on ninety days' written notice decline to act for any affiliated carrier in one or more of the countries for which it is General Sales Agent. In the event the President of Panagra fails to approve or requests termination of the designation of an affiliated carrier of Pan American under paragraph 1 above, then that affiliated carrier may on ninety days' written notice discontinue Panagra as its general sales agent in any of

1-4-55 mfr

G043286

GR-9892

[fol. 639] said countries. Panagra shall delegate to Grace its full responsibility for the performance of this general sales agency, and Grace shall hold Panagra harmless for the performance of Panagra's obligations to Pan American and its affiliated carriers. Panagra shall continue to be responsible to Pan American and its affiliated carriers for acts of Grace pursuant to such delegation and such delegation shall not constitute Grace a sub-agent.

3. Grace shall continue to act as General Sales Agent for Panagra in Panama City, Canal Zone, Colombia, Ecuador, Peru, Bolivia and Chile and shall be responsible to Panagra for carrying out of all Panagra's obligations arising from the appointment of Panagra as General Sales Agent by Pan American and its affiliated carriers as specified in paragraph 2 above.

4. (a) For services rendered as General Sales Agents, in accordance with the foregoing paragraphs 1, 2, and 3, commissions shall be paid at the following rates, namely, a 10% commission on all passenger traffic, including excess baggage, and 7½% commission on all cargo and express traffic sold; and in addition Panagra may at its discretion pay to Grace for handling or other services a 5% commission on its revenues from incoming cargo and express on shipments on which Panagra determines such payment to be justified. Where sales are made by a sub-agent, the General Sales Agent shall be entitled to retain an over-
GR-9893 G043287

[fol. 640] riding commission of 2½%. These commissions shall be payable commencing January 1, 1948. No other compensation shall be paid for the services rendered by Panagra, Grace or Pan American as such General Sales Agents except to the extent specifically provided herein or in any General Sales Agency Agreement.

(b) Panagra shall turn over to Grace the full amount of all General Sales Agent commissions paid to it by Pan American and its affiliated carriers and the full amount of any other sales commissions paid to Panagra under interline agreements or otherwise resulting from traffic sold by Grace as General Sales Agent for Panagra.

(c) In connection with the assumption by Grace of responsibilities as General Sales Agent at various points, particularly Lima and Santiago, Panagra will discontinue its existing general selling activities at these points. Certain expenses incurred by Panagra at the above and other points in 1947, as set forth in more detail in Annex A attached, shall be assumed by Grace. Grace shall assume the similar expenses incurred by Panagra in 1948.

G043288

5. General Sales agency agreements covering the understandings recorded in paragraphs 1 to 4 inclusive of this memorandum and otherwise describing and clarifying the obligations of the parties will be prepared promptly. Nothing in such agreements shall relieve Pan American of any obligation to Panagra already assumed under the Through Flight Agreement; provided, however, that the said agreement GR-9894

[fol. 641] ment shall be modified in the event of the contingency specified in paragraph 1 hereof.

8. In addition to the sales, purchasing and shipping services provided for above, Pan American will continue to make available to Panagra the services and facilities of its general and administrative organization in New York. Grace will continue to make available to Panagra the services and facilities of its entire organization both in the United States and in South America. The nature of the services which the companies will render Panagra is more fully described in the attached memorandum entitled "Payment to Parent Companies for Services", dated March 3, 1948. In order that Panagra may obtain the fullest advantage of the availability of these services and facilities, it is agreed that Panagra may from time to time indicate in writing to Pan American and Grace the precise type of available services, facilities, information and consultation desired, and Pan American and Grace agree that they will use their best efforts to provide service to Panagra of the type and character specified and in the manner so indicated.

• Panagra agrees to credit Pan American and Grace as full compensation for services rendered by such companies

to Panagra during 1947 with _____ and _____
 of which _____ represent sales commissions paid or
 payable by Pan American and its affiliated carriers through
 GR-9895 _____ G043289
 [fol. 642] Panagra, respectively, less amounts heretofore
 paid on account of such services to Pan American and
 Grace respectively in respect of 1947 and, in the case of
 Grace less expenses assumed by Grace hereunder amount-
 ing to _____. These amounts were com-
 puted in accordance with the said memorandum entitled
 "Payments to Parent Companies for Services", and cover
 the services referred to therein. The foregoing amounts
 do not include sales commissions paid or payable by Pan-
 agra to foreign affiliates of Pan American; nor do they
 include sales commissions paid to sub-agents.

For services referred to above to be furnished during
 the year 1948, excluding services as General Sales Agent
 and services of Pan American covered by Paragraph 6 of
 this memorandum, which are to be compensated on the
 commission basis herein described, Panagra agrees to pay
 Pan American _____ and to pay Grace _____

The amount payable to Grace and Pan American for
 years subsequent to 1948 for services other than sales,
 purchasing and forwarding for which specific commissions
 are provided, will be determined in the manner described
 in the memorandum entitled "Payments to Parent Com-
 panies for Services", dated March 3, 1948, and an effort
 will be made to agree upon the amounts payable for each
 year as promptly as possible after the beginning of such
 GR-9896 _____ G043290

[fol. 643] year. It is understood that while Pan American
 and Panagra each maintains separate general offices in
 New York for its own account, certain office functions such
 as telephone switchboard and mail handling are now pooled
 and will continue to be pooled for convenience, and the
 payment herein provided for covers Panagra's full share
 of such pooled services. In accordance with past practice,
 Pan American shall continue to charge Panagra with out-
 of-pocket expenses, such as postage, specifically incurred

at the request of Panagra and resulting from such pooled services. Long distance telephone calls made by Panagra through Pan American's switchboard, except calls made over existing tie lines with Washington or other tie lines not charged by Pan American directly to its divisions shall be charged to Panagra.

In accordance with past practice, Grace shall continue to charge Panagra with out-of-pocket expenses incurred at the request of Panagra by the Grace offices in New York and Washington, such as postage, the cost of cables, long distance telephone calls, travel expenses and the medical examination of Panagra employees assigned for service abroad.

G043291

11. To facilitate operation of all phases of this agreement, both immediate and long term, Grace and Pan American will each designate one of its officers stationed in the GR-9897

[fol. 644] United States and authorize him to act for Grace or Pan American, as the case may be, in the resolution of any problems referred to him by Panagra's executive management which may arise under this arrangement and which have not promptly been solved to Panagra's satisfaction by the Administrative sales or operating personnel immediately concerned.

12. This agreement shall in no respect alter or repeal any provision of the Through Flight Agreement; provided, however, that the said agreement shall be modified in the event of the contingency specified in paragraph 1 hereof.

13. This agreement shall remain in effect until May 5, 1950, and thereafter until terminated by any party hereto by six months' written notice to the other two parties. In the event of such termination, Pan American and Grace shall continue to make available to Panagra the services and facilities being provided at the date of the execution of this agreement, and Panagra shall continue to avail

itself of such services and facilities and compensate therefore at amounts then to be determined.

G043292

Dated: July 14, 1948.

PAN AMERICAN-GRACE AIRWAYS, INC.

By s/s H. J. ROIG
President

PAN AMERICAN AIRWAYS, INC.

By s/s E. BALLUDER
Vice-President

W. R. GRACE & Co.

By s/s ANDREW B. SHEA
Vice-President

GR-9898

[fol. 645]

GOVERNMENT'S EXHIBIT 270

No. 5.

SANTIAGO, 30th October, 1930.

R. H. Patchin Esq.,
W. R. Grace & Co.,
NEW YORK.

Dear Patchin,

Our Santiago-Buenos Aires Division is, I believe, at the moment, and will continue increasing to be the object of Trippe's desire.

From what I can gather from conversations with Rihl and others, Panair, since the absorption of NYRBA, find themselves with an enormous expense account in Buenos Aires and no business. They have taken over the huge NYRBA offices, hangars and shops, but, apart from using the latter for reconditioning the Commodores also taken over from NYRBA, they have no manner of use for all this.

show, as the only service they are running is a daily service between Buenos Aires and Montevideo, which Rihl states does not pay of itself, and which we know from experience never will pay without some form of subsidy. They are, of course, talking about running passenger line to connect with their mail line at Santos and also talking of other passenger lines to other points in the Argentine, but these too we know will never pay without a subsidy, because one of the few thoroughly well established facts with regard to commercial aviation is that a well equipped passenger line with multi-motor planes cannot be made to pay, even if it carries maximum loads every mile flown. I reckon that Panair cannot be losing less than between \$50,000 and \$100,000 U. S. G. per year in the Argentine at present, and I would not be surprised if it were in excess of the latter figure.

The result of all this is that Panair are going to be desperate to get their East-Coast line extended to Buenos Aires in one form or another. Rihl states that he sees no reason why the United States Government should subsidize two air services to the Argentine and that therefore so long as our line runs to the Argentine there is no reason why the United States should extend their East Coast line beyond Punta Alegre. This is perfectly obvious, but it of course concentrates the pressure on our line as about the only way Panair can get their East Coast line extended to Buenos Aires is by discontinuing our line from Santiago. I cannot escape feeling that this is behind Trippe blocking all efforts to get the Chilean situation settled on a reasonable basis and a good deal of his other conduct. You may recall that he suggested to me a long while ago that we ought to turn over the operation of this line to them, which would probably be the first step in getting it discontinued and switched to the East Coast.

[fol. 646] In my low moments I have sometimes thought that it might be worthwhile falling in with Trippe's idea and stopping our line at Santiago, provided we can in exchange get a controlling stock interest in Panamerican Grace, which might not be utterly impossible. This would certainly be worth some sacrifice, and we would not be

giving up very much in direct revenue, because the Buenos Aires run is not going to be very profitable anyhow. I have always abandoned this idea, however, because of the fear that if our line stopped at Santiago the shrinkage in our mail movement would be such that there would be little possibility of a third trip, and we might even lose our second trip. The loss of either of these would, of course, offset any financial disadvantage from the operation of the Buenos Aires Division; I am therefore of the opinion that we should hold on to this Division, which, in my opinion, means that we must fight for it, because our friend in his usual relentless fashion will never let up unless he has his way.

• • •

Very truly yours,

HJR/FL.

[fol. 647]

GOVERNMENT'S EXHIBIT 271.

SANTIAGO, 9th December, 1930.

D. S. Iglehart Esq.,
W. R. Grace & Co.,
NEW YORK.

Dear Mr. Iglehart,

"P A N A G R A"

Fifty-fifty control has just about reached a breaking point, so far as I am concerned, in connection with this Chilean negotiation.

No man can be left on a limb the way I have been and be expected to get results. What has happened to me is just typical of the way the Company's business is being handled. It will get worse as conflict of interest becomes more and more intensified.

If the Panamerican directors are going to vote en bloc it simply means that one man is going to run the Company or prevent its being run, and this man I fear would be equally satisfied with either alternative.

The Company cannot hope to succeed under such conditions.

Although we have never done it, Trippe has on a number of occasions suggested submitting controvertial points to arbitration. In line with this I thought what would you think of the idea of adding an odd man to our Board, such man to be someone of high type, absolutely free from bias in favour of either side? Do you think Panamerican would agree to this idea? We would probably have to pay such a man a substantial director's fee, but this is the only way to go on which I can think of at the moment.

Yours very sincerely,

HJR/FL.

[fol. 648]

GOVERNMENT'S EXHIBIT 272

March 2, 1931

PAN AMERICAN-GRACE AIRWAYS

Mr. Patchin and I had a talk with Hoyt this morning. After some discussion of radio, pending bills and agency contracts, we got to the question of general management.

I recalled conversations that had taken place about a year or so ago about MacGregor and told Hoyt that I had recently learned that these had been carried directly back to MacGregor so that he felt that we were the people anxious to be rid of him although the decision was that of the entire Board. Hoyt promptly denied that this had gone back to MacGregor through him which I said I, of course, understood and had in fact already accused Trippe of having done this.

A general discussion followed during which the name of Grow was discussed for a moment but Hoyt finally said that, of course, the difficulty was that Trippe wished to take over the management of this line and that we recog-

nized that if MacGregor were let out without a successor being appointed Trippe would never consent to the appointment of a successor with the result that he would accomplish his result by indirection and that accordingly we were at a stand-off. He said that Trippe had some support among the directors for this view, mentioning Grovener particularly [fol. 649], although he, Hoyt, personally sympathized with our view. I explained once more the reasons why we could not agree to Pan American's taking over the operation. The net of it all was that Hoyt finally said he did not see how anything could be done at the moment except to get along as best we could from day to day as we had been doing.

In the course of the conversation I told Hoyt that I had formed the impression from a conversation with Trippe some time ago that he was figuring on some way of getting the money for his Argentine extension out of our contract, —perhaps by keeping us from the \$1.80 rate on our second trip after July 1st and that we naturally felt it was highly irregular and would not for a moment tolerate any attempt in this way or any other to finance his Argentine extension at our expense. Hoyt admitted that Trippe had had some such idea and that he had told him that it was out of the question and suggested that I write Trippe stating my views which I shall do.

In spite of all this I still do not feel that we have enough to gain by trying to get Trippe off the Board, even if we can accomplish it, to offset the fact that by so doing we would make him an absolutely free lance against us. He would continue to run whoever took his place and we would [fol. 650] lose whatever slight restraint his dual position imposes on him. You will promptly question this view but I can only express it as my honest opinion. The fact that Whitney and Trippe are endorsing notes does not seem to me to indicate any weakening in their position and I am wondering if Hoyt's marital situation may not weaken his. I do not set much store by his suggestion of buying out Pan American's interest in Panagra but it may be a very faint ray of hope.

[fol. 651]

GOVERNMENT'S EXHIBIT 273

J.D.M. Series

No. 31-57

NEW YORK,
October 23, 1931

Mr. J. D. MacGregor,
Vice President & General Manager,
Pan American Grace Airways, Inc.,
Santiago, Chile.

Dear Mr. MacGregor:

AIR EXPRESS

Mr. French of the Panair Express Department has just called my attention to the fact that our air express rate between Montevideo and Buenos Aires, both ways, is equivalent to 30¢ a pound, whereas the Panair rate between those two points amounts to only 25¢ a pound.

This being the only point where direct competition exists between the two companies, in addition to Miami/Buenos Aires, I have told French that we shall revise our rate to the equivalent of 25¢ a pound provided this meets with your approval.

If it does, kindly notify Messrs. Van Law and Zalduondo that they may adjust their tariffs accordingly.

Yours very truly,

PAN AMERICAN-GRACE AIRWAYS, INC.

Comptroller

c.c. to Mr. Van Law, Lima.

GV/MD

[fol. 656]

GOVERNMENT'S EXHIBIT 276

PAN AMERICAN-GRACE AIRWAYS, Inc.
135 East 42nd Street, New York, N.Y.

PERSONAL Letter No. 1632 Cable Address

SUBJECT: PANAGRA DIRECTORS

HRH/FL

LIMA, October 27, 1933.

Mr. J. D. MacGregor, New York.

Your personal #1395 (Oct. 19):

In connection with Mr. Trippe's suggestion that we pool the revenue from passengers that might take either the West or East coast routes to B. Aires, it strikes me that our Grace friends might see in this an opportunity for Trippe to tremendously increase his passenger comfort and accommodations on the East coast run during the period when the pooling arrangement was in effect, permitting at the same time the West coast passenger accommodations to stay as they are, or increase only slightly, and then at the end of this pooling agreement to have a very strong argument in his own favor on the East coast with regard to his passenger accommodations and also a strong argument with the U.S. postal authorities in connection with the question of subsidies for the East and West coasts. It would seem, therefore, that this pooling arrangement might possibly meet with considerable opposition.

I am indeed interested to note your idea that at present there may be some incentive on the part of Panair in booking passengers from the States to favor the East coast over the West coast route. I trust that this is not a fact, since I believe that if it is arrangements might be made to counteract this if possible. For instance all Grace agencies throughout the United States might be persuaded by Grace to put on an intensive campaign in connection with the West coast air route.

H.R. HARRIS

[fol. 657].

GOVERNMENT'S EXHIBIT 277

PERSONAL 1426

FOUR-DAY SCHEDULE

NEW YORK,
November 6, 1933Mr. H. R. Harris,
LIMA.

My dear H. R.:

With reference to your personal letter #1619 of October 20th, I do not know where you got your information that Panair is planning to institute a fast service on the East coast by January 1, 1934. I presume that this is an optimistic estimate made by George Rihl. As a matter of fact, Panair is figuring on a one-day faster schedule, but, so far, all the talk has been January 1, 1935.

It is pretty self-evident that Panair cannot accomplish this with their present slow Commodores.

.

You can be sure that we will not allow Panair to have the jump on us in this matter, and I think you also agree that we should not try to get the jump on them by extending our flying time with our present equipment.

.

I do not think that we should enter into a speed competition with Panair. From what I am able to gather, the United States Government is just as anxious for us to [fol. 658] increase our passenger traffic as it is for us to increase the speed of the airmail. By running at a reasonable speed, with later departures and earlier arrivals, and with more modern equipment, we can satisfy our passengers and, at the same time, decrease our lapsed time.

.

J. D. MacGregor.

JDM/Q

[fol. 659]

GOVERNMENT'S EXHIBIT 278

Pan American-Grace Airways, Inc.
135 East 42nd Street, New York, N.Y.

PERSONAL Letter No. 1674

Subject: NEW EQUIPMENT

HRH/FL

LIMA, November 20, 1933.

Mr. J.D. MacGregor, New York.

Your personal #1426 (Nov. 6) four-day schedule:
#1428 (Nov. 7) " " "

Thank you very much for giving me this very interesting information about the possibility of Panair and Panagra speeding up schedules to and from B.Aires. One way of looking at our Panagra service would be that we should give the best service we can, regardless of what our affiliated company find they can do, since it is unquestionably true that we were in B.Aires long before Panair ever got there, and we have the shorter route, so from one way of looking at it we are justified in operating as we like over the route which we pioneered. It is quite true that if we did today speed up to four days between Cristobal and B.Aires and still had the same arrival and departure days at Cristobal-as at present, we would be arriving in B.Aires on Friday, the same day as Panair arrives from the north, and leaving on Thursday, the same day as Panair leaves for the north, which would, of course, be undesirable both to the U.S. Post Office and the Argentine Post Office. However, I assume that you will be willing to authorize this four-day schedule, even with our present equipment, if we should suddenly have Panair pull a fast one on us and institute a faster service from B.Aires than they are carrying on at present. I, of course, am completely in agreement with you that we cannot enter into a speed-competition with Panair, since if it should ever come to actual competitive effort between the two companies, Panair could, of course, throw a good deal of money into high-speed

equipment to compete with us, whereas we would be unable to make any expenditures for our own high-speed equipment due to their failure to approve such expenditures in Board meetings.

H. R. HARRIS

H. R. Harris

[fol. 660]

GOVERNMENT'S EXHIBIT 279

No. 29
(AG Trip Series)

Air Mail 224
New York 228

NEW YORK, February 22, 1934.

Harold J. Roig, Esq.,
NEW YORK.

Dear Roig:

PANAGRA

I have had several long talks with Harris with reference to Panagra in general, and in one of my recent conversations led up to the new schedule, primarily for the purpose of understanding some things which were not very clear to me before I sailed.

I then led up to the bottle-neck, which will be the northern section, i.e., Panama-Guayaquil or Panama-Talara, saying that it seemed to me that until we replace the Skorskys with a larger and faster seaplane we have a definite bottle-neck up there as regards passenger accommodations, and that from the little I knew about this aviation business it seemed to me that sooner or later we would have to find a faster and larger seaplane, adding that from what I heard, this kind of a plane is still to be designed.

Harris then opened up and said that this kind of a plane is already in existence and he explained to me in detail what

Redshaw tried to bring to your attention in his cable No. 17. I am enclosing herewith a copy of a letter from the Con- [fol. 661] solidated Aircraft, who are manufacturing this particular type of plane, which I understand has a capacity for 20 passengers and is supposed to cost about \$110,000 per plane. In addition to this letter I also enclose marginal comments submitted by experts. Harris feels very definitely that this is the type of plane we should ultimately have on the northern run.

After we finished this part of the conversation I remarked that the two-day run from Miami to Panama seemed rather too long, and he immediately opened up, showing me a very detailed letter on the subject written by him to Mac Gregor under date of October 27. In this letter Harris submits very definite recommendations to cut the time of that trip down and to rearrange the routing. Harris says it is perfectly ridiculous that the Canal Zone gets a secondary mail service whereas Colombia gets a first-class service. It is his idea that Trippe should run the Panair planes from Miami to Panama in one day by running via Puerto Cabezas and then take care of Colombia with some sort of a shuttle service. He is quite frank to say that while in his opinion this is the correct thing to do, he does not think it would suit Panair to cut the trip from Miami to Buenos Aires by an additional day as this would only increase the differential against the East Coast run.

Enclosures

Very truly yours,

(Signed) A. GARNER

[fol. 662]

GOVERNMENT'S EXHIBIT 280

Westbury 124

LA GRANJA
WESTBURY
LONG ISLAND
AUG. 6th, 34

Dear Roig,

In casting about for a suggestion that might be useful to you on the one hand to offset Trippe's East Coast propaganda and on the other, the move in Washington toward cancellation or modification, I decided to put forward to you the idea of preparing and presenting a constructive and progressive program. The strength of the west coast position is that we can use fast land planes and availing also of the shorter distance can make faster time. If we could add night flying to our program and could find a way to beat the French record of 31 1/2 days, Paris to B. A., then I would feel that we could hold our own.

I know that I am suggesting a tall order and am also not unmindful of the necessity of avoiding risks. The Douglas plane is however such an enormous step ahead that I believe that with them we are going to be able to do something notable. Furthermore the moment is ripe. The enclosed card greatly impressed me and yesterday Tommy Hitchcock who had just arrived from Los Angeles by this route and who is well posted on planes told me that this Douglas service is unbelievable in its security and comfort. Should we not order some more, and meanwhile make a little sensation by trying to inaugurate our Douglas service with an eye opening performance?

I have been away from my desk for a fortnight but am feeling better and will be back in a day or two. Hope you are fine.

Yours, Iglscharo

[fol. 663]

GOVERNMENT'S EXHIBIT 281

W. R. Grace & Co.
New York

Letter No. 15
(D.S.I. Series)

ORIGINAL AIR MAIL LETTER

copy follows by steamer

New York, August 13th, 1934

Harold J. Roig, Esq.,
Lima, Peru.

Dear Roig,

A good many matters have come up and are still pending with reference to Panagra, and I am asking Cogswell, who is more conversant with them than I, to write you fully with reference to them. One matter came up, however, in my discussions with Clark, of which I want to acquaint you. I told Clark of the difficulty we are having in the administration of Panagra due to the character and attitude of Trippe and called his attention to the matter we are now discussing, namely, the advisability of speeding up the West Coast schedule. Clark felt so keenly the advisability of doing this that I asked him to discuss it with Root and see if he agreed to its importance, and if so, Root should make the suggestion to Trippe. Clark talked to Root and the latter said that Trippe was in favor of speeding up the service on the West Coast but that he was holding back as he was at odds with us with reference to the general plan of administration of Panagra. Clark called me up [fol. 664] yesterday and suggested that it might be a good thing for me to have a talk with Root to see whether we could not work out some suggestion for solving the fundamental difficulty we have with Trippe. I called Root on the telephone but find that he is away on his boat but expects to be back shortly, and I left word for him that I would be glad to see him as soon as it is convenient.

Meanwhile, regarding the question of the improved West Coast schedule and the question of the equipment for the northern section, I see very little prospect of our making very much progress with Trippe here and feel that, burdensome as it will be to you, our best chance will be for you to work this out with Trippe. You have more influence with him than any of us, and although I think he will vigorously resist any schedule from the West Coast to B.A. that is faster than his East Coast schedule, I should think that Washington would support us in an effort to make as fast a schedule to B.A. by the West Coast as is safely practicable. It seems to me that it would be difficult for Trippe to sustain the attitude that no advantage is to be taken of the shorter distance, or of the faster land equipment, or of the possible saving of time by night flying or otherwise that is practicable on the West Coast in order to avoid getting to B.A. in quicker time than that of the East Coast service. [fol. 66.]

Regarding the airmail hearing, and particularly, regarding the danger of Trippe's taking any action which might be prejudicial to Panagra, this again is a matter of conjecture. I am going to make an effort to get at some basis with Root that will put an end to our impasse with Trippe, and although I have no reason to think I will be successful, I am certainly going to try hard to get at some suggestion to put before you, and if by chance I am successful in this, then the atmosphere will be clear and your task made easier.

Yours very truly,

MEMORANDUM OF CONVERSATION WITH
J. T. TRIPPE, SEPTEMBER 14, 1934
AT HIS OFFICE 4:00 PM

oooOooo

After discussing various general matters, I said that we had all become convinced as a result of certain recent developments and particularly various matters which had come to my attention on my trip, that a serious situation existed with regard to Panagra which we would have to find a way to remedy and, painful though it might be to do so, I felt that we should discuss the matter with the utmost frankness.

I replied that I was sure there was some way of making the trip in one day to the Canal if he wanted to do so and felt that the real reason for their not doing so was to prefer the East Coast Line in every possible way over the West Coast. I pointed out that this was further emphasized at the other end of the line where every effort was made in B.A. to emphasize the fact that Panagra was merely a West Coast line and that the only way to the States was via the East Coast.

I called attention to the fact that although he had radioed me that he invited the people in the Brazilian Clipper to return by the West Coast, I knew for a fact that he had on the contrary urged even those who wanted to come that way [fol. 667] not to do so and that upon my return I had found him knocking our line in the newspapers and that the only conclusion that could be drawn from his attitude in all these matters was that he was seeking in every way to prejudice the West Coast line to the advantage of the East Coast and that this was no way for a partner to act.

— Rous

[fol. 670]

GOVERNMENT'S EXHIBIT 284

DELRAY BEACH,
FLORIDA

March 26th, 1935.

A. Garni, Esq.
c/o W. R. Grave & Co.,
7 Hanover Square,
New York City, N.Y.

Dear Garni:

PANAGRA.

I think we ought to get definite information as to the number of passengers we are turning away on the West Coast trips. It seems to me that for Trippe to be building up this system of the East Coast, with all the expense of publicity and that at the same time he should be spending a year in futile discussion and in an endeavor to prevent the logical development of our West Coast business is something that is little short of criminal. I think that you ought to get Grenville Clark to put the whole thing on a piece of paper in such a form and in such a powerful light that it will bring Trippe to his feet and to immediate action. I am not sure that in doing this it may not be advisable to leave a very strong position on record so that we will have Trippe in our fingers in the future and at all times.

Yours sincerely,

DSI/KH.

[fol. 673]

GOVERNMENT'S EXHIBIT 286

GRACE y Cia (Chile) S.A.
SANTIAGOLetter No. 75 Airmail 5.12.35
(HJR trip series) NY 5.18.35ORIGINAL AIR MAIL LETTER

Copy follows by steamer

Santiago, May 11, 1935.

R. Garni, Esquire,
New York.

Dear Garni,

BUENOS AIRES TRAFFIC

This letter was begun in Buenos Aires after extended discussions with Messrs. Dagnino, Moore and Martin there but I have delayed putting it in final form until after an opportunity to turn the subject over in my mind a bit.

In my discussions in both Buenos Aires and Santiago I have endeavored to emphasize that we must have more through traffic from both of these points. While we want every possible passenger between Buenos Aires and Santiago, we cannot consider that either of these offices is entitled to any particular credit for getting this traffic since to so large an extent it comes to us automatically because of conditions on the Transandin. The traffic effectiveness of these offices must be judged almost entirely by the traffic which they secure for points north of Arica and particularly for Cristobal and points north, which, in the case of Buenos Aires, means to Miami since passengers for Central [fol. 674] America and the West Coast of the United States would normally favor our Line in any case. We must have long-haul business from Buenos Aires and Santiago, not only because of the greater revenue, but because so long as we cannot carry local traffic through Chile, this is the only way we can fill our planes over that long run between San-

tiago and Arica. This as I see it and have tried to develop both with Dagnino and Moore, is the nub of our traffic problem in the Southern and Eastern Divisions.

The obvious inadequacy of the present movement is apparent from the following figures for the year 1934:

	No. of passengers to Miami	Cash Sales	CTC	Passages issued against:	
				Exchanged Orders	PAA or Panagra Flight Coupons
Buenos Aires	25	8	1	4	12
Santiago	12	8	3	0	1

These figures show, not only that the total movement from both of these points was wholly inadequate, but, what is more specifically to the point here, that the number of through passengers directly influenced from these points,—i.e. their cash sales plus CTC—was insignificant being only 9 from Buenos Aires and 11 from Santiago. The outstanding problem at both points, therefore, is the development of more through business. The explanation given in Buenos Aires for the small movement is that the field of prospects is limited largely to Around South America tourists and to commercial travellers, the latter being considerably restricted by the fact that American interests are not of a size in proportion to the city. Argentineans travelling abroad are more likely to go to Europe than to the States and even when going to the States the problems of baggage and much greater expense by air are serious ones. *I feel that the long-haul problem has not been scratched* and that we need a thorough study and specialized attack on it in both Buenos Aires and Santiago. The problem will involve devising selective media of approach which will reach at reasonable expense the selected list of prospects on which we must rely, and a carefully worked out system of contact and follow-up.

The question immediately presents itself whether a joint office with Pan American in Buenos Aires or a separate office will get the best results. A joint office is certainly less

expensive. I doubt if we could run an adequate traffic office of our own in Buenos Aires for what our present contribution to the joint account now amounts to and certainly not [fol. 676] for what that contribution will be when reduced to the 50% basis. There is some risk that separate offices might lead to destructive competition where each office would be pointing out the disadvantages of the other's route, the result being definitely prejudicial to travel on both lines.

The share of the Buenos Aires traffic which we have received to date from the joint office is less than we would be entitled to on a strictly mathematical basis. In 1934 there were 33 passengers from Buenos Aires to Miami. Of these, 25 travelled via Panagra and 8 via Panair, but, of these 25, 12 travelled on Panair or Panagra flight coupons and 4 on exchange orders. Most, if not all, of these 16 passengers were probably Around South America tourists who had been routed down the East Coast and up the West. No choice of route was involved in these cases and had their tour proceeded in the opposite direction the purely superficial conclusion which might be deduced from the above figures would be entirely reversed. Eliminating these 16 cases from the above 25 leaves 9 West Coast passengers (including 1 CTC and 1 passage issued in connection with Panair ticket) who might possibly have been influenced in choice of route by the Buenos Aires office, against 8 East Coast passengers (including 1 CTC). As we have twice [fol. 677] as many trips as Panair, we should mathematically have had at least twice as many passengers, but where the total is so small conclusions from this comparison cannot be pressed too hard. Special and personal considerations become too large a factor where such small figures are involved. On the other hand the fact cannot be ignored that with a service one day shorter to Miami than the East Coast we have so far enjoyed a natural advantage which will cease to exist when the schedules become the same. I discussed frankly with Moore and Martin how they proposed to see at that time that each company received fair treatment. Their only answer was that the passenger determines the route he will take for reasons of his own. With equal time schedules I doubt that this will serve our purpose.

Taking all things into consideration, my feeling is that we have not sufficient reason at this time to warrant considering a separate office and that we should continue with the joint office with certain changes. In doing so, however, we must be constantly alive to the risk we are running and continually on the lookout to see that we are not being prejudiced. Once it became apparent that even with the changes proposed we were being prejudiced there would be no escape from a separate office:

[601.678] The changes we have under consideration are:—

- (1) The entire Panagra traffic organization should concentrate more attention on the long haul traffic problem from Buenos Aires. Moore fully understands that, as the agency of Panagra, the Buenos Aires office is under the general instructions of the Panagra traffic organization, subject to the policy of avoiding antagonistic competition between East and West Coast Lines. By constant contact with the office, supplying them with more distinctively Panagra literature and Panagra traffic ideas and seeing that these are carried out, we can, I believe, impress the position of our Line on that office. The fact that our business over the Andes supplies a predominant part of their current movement assists to keep the position of our Line prominently in the foreground.

If you have any definite ideas on any of the above suggestions it might be well to cable promptly on receipt of this letter as the matter is likely to be moving right along.

Very truly yours,

[fol. 679]

GOVERNMENT'S EXHIBIT 287

PAN AMERICAN GRACE AIRWAYS, Inc.

135 East 42nd Street New York, N. Y.

CABLE ADDRESS
"PANAGRA"*Private & Confidential*

January 24, 1936.

Memorandum to Mr. A. Garhi,
First Vice President,
W. R. Grace & Co.,
New York City.

I suggest for your consideration the purchase of two Northrup Gamma airplanes, equipped with F-53 Cyclone motors, which would cruise at 200 miles per hour using 70% power, gassed for a range of 1760 miles and which would then carry over 800 lbs. of mail. The plane would be manned by a pilot and equipped with radio, the weights thereof having been included in calculating the above payload. The Gamma has a maximum range of 2,120 miles, at which range the payload would be over 400 lbs.

In developing this thought I have considered:

1. That it would put us beyond the reach of Panair east coast competition.
2. We would not infringe Panair rights by flying over their territory or that of their affiliates.
3. It would practically assure us a monopoly of U.S. and intercountry mails.
4. It would permit PanGrace passengers to continue on the present 3½ day schedule which would not be too onerous.
5. The propaganda value would be enormous and our place in the sun would be restored.

[fol. 680] 6. My discussions with Mr. Allen and Mr. Campbell have shown this operation to be feasible.

J. D. MacGregor.

J. D. MacGregor.

[fol. 681]

GOVERNMENT'S EXHIBIT 288

August 4, 1936.

C. V. Whitney, Esq.,
230 Park Avenue,
New York City

Dear Whitney:

Once or twice in the past I have asked for and received your help in an endeavour to keep the affairs of our jointly owned enterprise, the Pan American-Grace Airways, moving in a satisfactory way. Now I come to you again with a matter which has great importance to this enterprise.

I have recently returned from South America, and while there looked carefully over the business and was impressed with the fact that our company is receiving from the Pan American Airways very little traffic. In fact, I estimate roughly that there are only about $1\frac{1}{2}$ passengers per trip coming to Panagra at Cristobal from the Pan American services from Miami and Brownsville combined. On looking for the cause of this condition I think that I have found it in the fact that we are not getting adequate publicity and traffic solicitation in the United States. As you probably know, we are paying the Pan American Airways a substantial amount each year for attending to publicity and traffic work, but notwithstanding our efforts to obtain adequate service, we have up to the present time found it impossible to do so. Publicity in respect to the Pan American-Grace Airways and its services is not only [fol. 682] not obtained but it is systematically suppressed by the Pan American Airways. I hand you herewith a memorandum

which will give you an idea of what is occurring in this respect.

Now the point that I want to bring out is this. I believe that not only is Panagra suffering from a lack of publicity and traffic service in the United States, and not only is the company paying amply for something which it is not receiving, but I venture the opinion that the Pan American Airways itself is suffering a prejudice by failing to sell the service of our joint company. I believe the physical conditions and weather conditions of the route to the Argentine via the West Coast are so far superior to those of the route on the East Coast, and due to this and the reduced distance it is so much more practicable to give a fast and satisfactory service to Buenos Aires via the West Coast than the East Coast, that if the Pan American Airways were to devote their effort to building up business via the West Coast it would probably make more money in the end with a half interest in our joint company than it would make with 100% interest in the East Coast service south of Rio or possibly Santos.

The situation of our company, giving as it does today one of the finest air services in the world and having no adequate publicity or traffic solicitation in this country is [fol. 683] quite anomalous and obviously cannot be allowed to continue. We have endeavoured to be as patient as possible but I fear that we have reached a point where we cannot continue to tolerate the treatment which our company is receiving, and I believe, after looking over the position, you will agree with me that it should be modified.

I appreciate the fact that you will eventually have to take up this matter with your associates, but I would be very much indebted to you if you would treat the matter as confidential until you have gone over it carefully yourself and given me an opportunity to discuss it with you.

Yours sincerely,

(Sgd.) D. S. IGLEHART

[fol. 684]

GOVERNMENT'S EXHIBIT 289

FEB. 8, 1947

Asst. in chg Production Div. Advertising Mgr.,

Traffic Advertising LAID

Miami RIO, Proteo

BUE Sales Folder

We've really got a competitive situation in Argentina now and apparently no holds-barred as to what we do about it insofar as to the quantity of advertising we put out to hold and improve on our market. Panagra is advertising right and left about their "Thirty Hours to the U.S.A." and their "Naturally Air Conditioned West Coast Route" so we've got to get on our toes and sell the East Coast—but good.

We'd also like to adapt the BUE folder for DEO and print a quantity of them there later but we'll have to wait till the BUE art work can be sent over to DEO for a local quotation.

Ernest L. Foss,
Div. Advertising Mgr.

cc: DyTM-MIA
Reg. Rep. PAA-RIO
Asst. to DyTM-Sales-MIA
Mr. Cameron, Grant-MIA

[fol. 689]

GOVERNMENT'S EXHIBIT 294

Mr. J. W. G. Ogilvie

Express Traffic Manager

Traffic

New York

Assistant Comptroller

Executive

New York

June 19, 1947.

It is my understanding from you that some sort of agreement exists under which we are supposed to send about half of the Miami-BA shipments via Pan-Grace with the apparent intent of giving them about half the revenue.

You told me that the Miami Express Department has been sending about half of the Miami-BA shipments by way of Pan-Grace but as you know, Miami has not been marking the Airwaybills so as to enable G.A.O. to distribute this revenue to Pan-Grace. Alternative methods of making this distribution appear to be as follows:

1. You suggested that Pan-Grace bill us based on Shipping and Discharge lists maintained by them. Since distribution of revenue originates in G.A.O. and since the revenue would be distributed before billings would originate from Pan-Grace, G.A.O. is not in a position to accept this method.
2. Miami Express could enter the flight number on each Airwaybill and G.A.O. would distribute accordingly. You state that this is not possible to accomplish.
3. Arrangements could be made (if such is the intent of the deal) to have G.A.O. distribute half of the Miami-BA express revenue to the West Coast route of which Pan-Grace would receive its share. If this were done, Miami Express would have to develop a definite control of shipments to make sure that half of the shipments went via the West Coast as otherwise L.A.D. would be carrying some for which it would not receive revenue. This same control of shipments would have to exist at Balboa to avoid shipments being diverted there and sent to Buenos Aires via the North coast.

[fol. 690]

In this connection, it should be noted that the C.A.B. in authorizing the thru flight agreement with Pan-Grace specifically denied a provision in paragraph 13 of that agreement which provided for sharing the Miami-BA revenue in a manner similar to that contemplated in the deal we are discussing. It is suggested that you might want to refer this entire matter to the Legal Department before taking any further action.

Amos Hatt

Assistant Comptroller

AH:FP

cc: Chief Accountant—GAO

[fol. 691]

GOVERNMENT'S EXHIBIT 295

Received in the office of
Vice Pres. & Gen'l. Counsel

Vice President Balluder Assistant Treasurer July 25, 1947
Referred to:

Executive
New York

Financial HJF JCP JJC FJC
New York GF JHW JMS Files

June 24, 1947

PANAGRA THROUGH FLIGHT AGREEMENT.

In addition to the special advertising campaign for the through flight service, Mr. Gunter points out that in October and November, Pan American is planning a national advertising campaign aimed at the development of business to South America with major emphasis on the Argentine which will cost approximately \$60,000. As originally planned, this was primarily for development of PAA business via the east coast. However, it is believed that with the development of the through flight service, it might be

that the emphasis on east coast and west coast could be balanced and that the amount of money involved could be considered as 50% applicable to east coast and 50% applicable to west coast. If such a program were followed through, it would mean that \$30,000 of the total of \$60,000 would be applicable to the through flight service.

In connection with this matter, a study has been made of the amount of traffic between the U. S. and the west coast (including B. A.). We have considered that under the through flight agreement, 2% of the total traffic between B. A. and Miami would go via the west coast. On this basis, traffic has been projected to revenues which total for the year 1946 approximately \$1,900,000. This revenue is based on one-way fares in effect for PAA and Panagra. Of this total revenue approximately \$465,800 was for the account of PAA and the remainder of \$1,435,000 for the account of Panagra or approximately 31½% and 68½% of the total revenue on this route would accrue to PAA and Panagra respectively. It occurs to me that the participation [fol. 692] in revenues of the service from Miami to B. A. via the west coast would be a fair basis for participation in the cost of advertising. If there is agreement in this premise, PAA would accept 31½% of the U. S. advertising program (\$100,000) covering the through flight service, 31½% of the cost of the advertising program of Panagra on the west coast (\$65,000) and 31½% of ½ of the cost of the national magazine advertising program (\$30,000).

With regard to advertising at B. A., it is assumed that the advertising of PAA and Panagra will be directly competitive from the standpoint of the B. A.-U. S. traffic. It would appear, however, that we would require agreement with Panagra as to the amount of money each company will spend in advertising through service to the U. S. As I understand it, we are currently in agreement in spending \$3,000 per month. However, I am not informed as to whether this \$3,000 is entirely directed toward the development of traffic to the U. S. If it is based on the revenue principle of distribution, it would be necessary for

PAA to absorb 31 2/3% of the cost of Panagra's advertising of the through flights in B.A.

Original signed by R. G. FERGUSON
R. G. Ferguson

cc: Vice President Dean
Vice President & General Counsel
Assistant General Counsel

[fol. 693]

GOVERNMENT'S EXHIBIT 296

Subject: Miami Traffic Office
Handling of Passengers

May 21, 1948

Pan American-Grace Airways, Inc.
New York

Attention Mr. J. T. Shannon

Gentlemen:

Ex-employee Robert Kelly, who has just returned from the states, visited this office yesterday and reported the following:

A friend of his whom he met in Miami inquired of him why it took so long to travel Miami-Buenos Aires. Kelly asked to see his tickets and he was sold over the East Coast route. Mr. Kelly proceeded with his friend to the downtown Pan American Airways Traffic Office and when he asked the Traffic Clerk why he sold this passenger over the East Coast, the Clerk replied: "We are instructed to sell all passengers over the Pan American Airways route unless the passenger particularly specifies the West Coast or Panagra."

In addition Captain Achilles on Monday evening May 17, was standing in this same office when a passenger inquired if he could travel on the DC-6. The Traffic Clerk replied that there was no DC-6 that evening, whereupon Captain Achilles reminded him that we were now into daily service.

with DC-6's. The Traffic Clerk in front of the passenger refuted this argument and went further by saying that there was a DC-4 the evening before (May 16) and Captain Achilles of course told him he was incorrect. The rest of the discussion is wordage but the point is clear.

Reasons such as the above are probably partially responsible for the falling off in our southbound loads over El Interamericano. We trust you will be able to use this information advantageously.

Yours very truly,

Jim

/s/ JAMES W. WALKER, JR.

[fol. 695]

GOVERNMENT'S EXHIBIT 298

August 17, 1948

Regional Traffic Manager

Division Sales Manager

Latin American

Latin American

Rio de Janeiro

Miami

BUENOS AIRES SALES TO THE UNITED STATES

Please refer to your copy of Mr. Homs' memorandum of August 13 showing comparative PAA-Panagra sales ex Buenos Aires and Montevideo to the United States. As you are aware, Panagra during the months of June and July far outsold PAA on both one way and round trip tickets.

I would very much like to receive your thoughts as to what we can do in Buenos Aires to offset this alarming increase in Panagra sales to the States. A short time ago, I wrote you on the same subject and you, in turn, wrote Buenos Aires indicating that every effort should be made to plug our guest houses along the route which seemed to be the only weapon we have to counteract the Panagra DC6 service. If, however, you feel that any other steps can be

taken from a sales or advertising standpoint, I would certainly appreciate receiving your ideas.

F. H. Sheldon

FHS/gb
cc Advertising Mgr-MIA

[Tab. 696]

GOVERNMENT'S EXHIBIT 299

SEND ORIGINAL BY PAA MEMORANDUM
TO: Division Sales FROM: Regional Traffic Manager
Manager

DEPT. LAD
OR DIV.
Loca- Miami
tion

DEPT. LAD
OR DIV.
LOCATION Rio de Janeiro

DATE: 25 August 1948

SUBJECT: BUENOS AIRES SALES TO THE
UNITED STATES

REFERENCE:

In reply to your memorandum of August 15th with further reference to our diminishing sales to the United States in Argentina as compared to the increasing sales for Panagra we advise you frankly that the only solution we foresee to this competition is the use of competitive equipment by LAD. I do not believe that efforts from a sales or advertising standpoint beyond what we are now doing could conceivably result in offsetting this competition or placing Argentine sales to the United States on a comparable basis for both companies. We are satisfied our Buenos Aires office is plugging our East Coast guest houses and is offering our service to the United States on an impartial basis. However, we cannot ignore the difference in equipment and service aloft in favor of Panagra.

We have discussed this matter of service in a round-about way with Mr. Fernandez, assistant flight superintendent,

who is now in Rio, and we find that, for example, there is no comparison in the presentation of meals aloft between the two companies. Whereas Panagra offers meals in a very attractive plastic tray with all items complete, we in turn offer the same meal but in a less attractive manner. Then we have the comfort and speed of the DC 6 as against the DC 4.

We do not mean to be overly pessimistic, but we cannot help feeling that until we have DC 6 Constellation or other comparable equipment we will have to be content with receiving our share of Panagra's income from Argentine sources.

Mario J. Martinez

Mario J. Martinez

MJM/DXP

cc: Division Traffic Manager, MIA
Advertising Manager, MIA

[fol. 697]

GOVERNMENT'S EXHIBIT 300

April 22, 1948

Memorandum to: Mr. A.B. Shea

The following statement shows the passages sold by Pan American Argentina S.A. to New York out of Buenos Aires via east and west coasts respectively for the year 1948:

Month	East Coast	West Coast
January	176-1/2	34
February	82-1/2	63
March	241-7/2	42
April	230-4/2	82
May	142-6/2	142
June	154-2/2	83-4/2
July	93-3/2	84-1/2
August	101-3/2	88-3/2
September	133-5/2	106-2/2
October	146-10/2	106-3/2
November	94-3/2	107-3/2
December	106-2/2	110-1/2

The interesting item in these figures is that during the second half of the year Pan American carried approximately 13% more than Panagra to New York, whereas during the first half Pan American carried 130% more than Panagra. For the year 1948 Pan American carried approximately 60% more than Panagra.

The improvement during the last half of 1948 is very encouraging, but I still cannot see why we cannot get better than a 50-50 division of this traffic when we are flying DC-6's and Pan American is flying DC-4's.

The record during the first half of 1948 is absolutely amazing and I would like very much to hear from somebody in Panagra the reasons for Pan American's having [fol. 698] carried 130% more traffic out of Buenos Aires to New York than we did when we were flying DC-6's and Pan American was flying DC-4's.

We have to particularly watch this situation now that Pan American have their Sleeperettes on the run, and an encouraging feature of this point is that we seem to be holding more than 50% of the traffic during the month of February. I am sure you will agree with me that this trend must be maintained and that we have to hold the Buenos Aires business.

We have the handicap of the changeover at Miami, but this still will not explain the very poor performance of 1948, particularly the first half.

J.P.G., Jr.

J.P.G., Jr.

[Handwritten notation at top of 1st page of Memorandum]

J.P.G., Jr.

I think the explanation is entirely the fact that we were running DC-4's through April - and the resumption of the DC-6 service explains the improvement that started in May. I agree of course that we should get more of the business.

A.B.S.

[fol. 699]

GOVERNMENT'S EXHIBIT 301

General Traffic Manager	Vice President
New York	Traffic and Sales
	New York

May 26, 1949

MIA-BUE TOURIST FARES

It is highly important that the MIA-BUE tourist fare be equalized east coast versus west coast as we cannot afford to permit the west coast routing to undercut the east coast. The absence of a tourist service from Miami to San Juan necessitates the absorption of the differential, but that action is entirely justifiable under the circumstances.

Therefore, let's immediately move up on equalizing the east coast tourist fare with that published by Panagra.

Willis G. Lipscomb

WGL/eff
cc--General Sales Manager

[fol. 700]

GOVERNMENT'S EXHIBIT 302

PERSONAL

SERVICE ON TOURIST FLIGHTS

NEW YORK,
June 23, 1949

Mr. J. W. Walker, Jr.
LIMA

Dear Jim:

.....

In this instance I do not feel that modification of the aforementioned instructions with regard to food service and cabin attendants on the tourist class flights ~~was~~ is

justified by the facts stated in your two letters above referred to, and it seems possible that perhaps your staff ~~did~~ not have the picture as to our concept of the tourist class service. We are operating this service (a) for the purpose of meeting the competition of the tourist class service of Braniff on the West coast of South America and of PAA at Buenos Aires; (b) to improve our capacity and frequency of service for cargo and express; and (c) to determine by actual experiment whether a substantial new traffic market can be tapped in our area at substantially lower rates. All of this is being done at the very considerable risk of diverting to this service passenger traffic which would otherwise travel on El Interamericano at full rates.

....
Sincerely yours,

Douglas Campbell

DC Q

[fol. 701]

GOVERNMENT'S EXHIBIT 303

COMPANIA DE AVIACION PAN AMERICAN
ARGENTINA, S. A.

32-8581

Avenida Roque Saenz Peña 788—
Buenos Aires, Argentina

Buenos Aires, September 1st, 1949.

Mr. Porter Norris, Traffic Manager
Latin American Division
MIAMI.

Personal

Dear Porter:

I have been meaning to write to you about a certain situation here in Argentina for some time but refrained from doing so while our one-way sales restrictions were on as we had so many problems at that time that this matter was rather insignificant by comparison.

Now that we are back in business down here we are making every effort to get everybody sales-minded again and I am certain that the figures in our monthly sales reports will be more encouraging from now on. We have some nice training programs organized and if we can get a few raises for some of our personnel we expect CAPAASA to be back competing with New York for the title of "Number One System Sales Office".

The problem I am writing about at this time is a very delicate matter but one about which you should definitely be informed as it is having an increasing daily effect on LAD's efforts to sell their excellent "El Panamericano" and "El Turista" services. As you know, I have always conducted myself on an entirely neutral basis when it came to the question of selling Panagra or Pan American to the United States or other competitive points. I feel quite certain that all of the CAPAASA employees are likewise following this procedure and all of us will continue along these lines until instructions to the contrary are received. Hardly a day passes but what personal friends in the American colony ask me about our services from Buenos Aires to the States and I always quote both impartially and let the passenger make his own decision as to what route he prefers. Unfortunately for LAD, there is a group of airline personnel here in town whose sole interest is in selling Panagra. I refer to the personnel in the Panagra Sales Office here in Buenos Aires and I am calling this matter to your attention at the present time because the effect of their presence here is increasing every day and as long as they continue to be here the LAD is not getting the neutral representation in the local market which they had a right to expect. The personnel in this office consisting of *Mr. Bourne*, *Mr. McCann*, *Mr. Pickering* and *Mr. Earsman* have developed a great number of contacts in the English speaking colony here, especially among the Americans, and naturally not being held down to the neutrality policy on U.S. sales, such as George and I are, the promotional efforts which they are able to do through [fol. 702] their social contacts, is an important factor to be

considered in analyzing LAD's position in the Argentine market. You can rest assured that when any of the personnel of this office have a chance to discuss transportation to the United States at cocktail parties, luncheons, American Club functions, etc., they do a very enthusiastic job for Panagra. Whenever George and I have similar occasions we are supposed to give enthusiastic support to both Pan American and Panagra, so that over a period of time this influence is bound to result to the sales detriment of your Company.

I do not want you to feel that I am bringing this matter to your attention on a personal basis. I have the highest regard for all of the employees of Panagra Buenos Aires Sales Office and socially our relationships are on a most excellent basis. What I am trying to say is that the presence of the local Panagra Sales Office, regardless of the personnel involved, increasingly tends to upset the balance of promotional power and works against the sales neutrality position which Mr. Dean so strongly emphasized to me before I came down here. Whether or not you wish to do anything about this matter is not my concern, but I feel that it is my duty to make the situation known to the persons in the LAD who are responsible for getting their share of business out of the Argentine market.

Best personal regards.

Sincerely,

/s/ JUAN
Juan Honis, Jr.

JH eck

[fol. 703]

GOVERNMENT'S EXHIBIT 304

Division Manager,

Division Traffic Manager,

Latin American

Latin American,

Miami, Florida.

Miami, Florida.

September 7, 1949.

PANAGRA REPRESENTATION - BUENOS AIRES.

CONFIDENTIAL AND PERSONAL.

Some months ago, when Panagra made known their plans to open a local office in Buenos Aires where certain Panagra personnel would be assigned, I opposed it on the basis that it would give Panagra a selling advantage over PAA in that important revenue producing city.

I discussed this with Mr. Morrison, who brought up the subject during a visit of Mr. Douglas Campbell in Miami, and I was invited by Mr. Morrison to his office to discuss this possibility with Mr. Campbell.

Mr. Campbell pointed out the reason for the move of the advertising office from Lima to Buenos Aires was because of the lack of vendors in Lima to print the type of advertising that Panagra desired. Mr. Campbell further informed us that the activities of this group would be limited directly to preparation of advertising for papers, magazines and brochures.

For your information, the personnel in this office now consists of Mr. Bourné, Mr. McCoin, Mr. Pickering and Mr. Earsman, which enables Panagra to enjoy a great number of personal contacts daily in the English speaking colony of Buenos Aires especially among the Americans.

Let us not forget that George Smith and Juan Homs find it necessary to retain neutral attitude in their sales promotion contacts and efforts. From the above, you may well realize that Panagra is beginning to enjoy a distinct sales advantage.

It is my belief that it is timely and necessary that Panagra again be cautioned, the men assigned to their advertising office in Buenos Aires should be limited to their definite assignment, preparation of advertising material and if they persist in their present indirect solicitation promotion efforts that PAA will find it necessary to assign a Regional Traffic office in Buenos Aires to counteract their activities.

Original signed by Porter Norris
Porter Norris.

PX:b

cc: VPLAD,MLA
Gen.Mgr.PAAArg,VUE

(Vol. 706)

GOVERNMENT'S EXHIBIT 306

Division Traffic Sales Mgr. General Sales Manager

Atlantic Sales

New York New York

November 29, 1949

You will be interested in a memorandum dated November 25 which I have received from John Shannon, Vice President of Panagra, which I quote in full.

"In the latter part of October a Major General Appleyard of the National Provincial Bank of London, who is making a trip around South America from New York, came to see Mr. Campbell, and during the course of the conversation expressed great surprise that it is possible to go from New York to Buenos Aires via El Interamericano in 26 hours rather than the longer period required via the east coast. He indicated that had he had this information when he bought his tickets in London he would have requested to be routed via the west coast, both because he preferred the shorter route and because he could have used an extra day in New York to great advantage. Unfortunately, at the time he was given the foregoing

information from Mr. Campbell he was unable to change his plans because after he had bought his ticket via Rio he made appointments to see some people in Rio, although he would not have gone via Rio specifically for that purpose.

"He stated that when he was discussing his trip with travel agents and the Pan American office in London, no one gave him any information with regard to the existence of the route via the west coast, much less any information with regard to the service available via that route, and he was quite put out that he had not been completely advised concerning the service available between New York and Buenos Aires at the time of buying his tickets in London.

"It appears from the foregoing that PAA offices abroad are not aware of their responsibilities as our General Agents, both with regard to their own personnel and the advice to travel agents. It would be appreciated if you would have the necessary action taken to correct this obviously unsatisfactory situation.

"Thank you for your cooperation."

[fol. 507] Please take the necessary action to be sure that all our personnel quote both services in South America—i.e., the west coast as well as the east coast.

John E. Muhlfeld

JEM ail

cc: John T. Shannon—Panagra
Vice President—Traffic & Sales
Regional Sales Manager—London

[fol. 708]

GOVERNMENT'S EXHIBIT 307

A.B.S. PANAGRA TRIP SERIES

No. 3

BOGOTA, January 10, 1950

Douglas Campbell, Esq.

NEW YORK, N.Y.

Dear Doug,

I have just read a copy of Bourne's letter #3749 and of McCoun's letter to Bourne dated December 19th, both reporting on their respective trips to Montevideo and Rio. I am frankly very poorly impressed by these letters and will cover this fully later on in this letter.

The outstanding impression I got from both letters, with respect to Montevideo, was that Bourne and McCoun are thinking primarily, if not exclusively, of getting a share of the passengers who might otherwise travel via Braniff from Rio and secondly of getting passengers who do travel via Braniff to change to Panagra at Lima. It seems to have escaped both men that as far as Montevideo is concerned our principal competitor is Pan American Airways. I am unable to find any indication in either of the letters that we are going to put on a real drive in Montevideo to get through long haul passengers destined to points in the United States.

I have had to do a lot of adding and subtracting and dividing of the figures given in McCoun's letter. From that it appears that in 11 months Pan American's sales to New York, Miami, Los Angeles, Houston and San Francisco [fol. 709] totalled 372 passengers, or an average of 34 passengers per month. McCoun states that the breakdown showing passengers travelling PAA vs. Panagra is not available. What must be available, however, is the breakdown of the Panagra vs. Pan American sales in Montevideo for that period and from that we can work out some idea

as to how much of the U.S. movement we were getting. My opinion is that we are getting little or none.

McCoun's letter shows that Pan American's sales (which include Panagra) amounted to \$730,000.—for the first 11 months of 1949.

I feel that Bourne and McCoun should be impressed with the fact that our principal objective in Montevideo is to get through passengers away from Pan American. We have the best service and the fastest service and I presume the same tariff. Therefore, we want to go out and get business from Pan American, just as much as we want to take business away from Braniff. I do not understand the apparent failure to grasp this very obvious principle on the part of two of our own top sales promotion men.

With respect to Bourne's letter, two of the three pages are devoted entirely to a discussion of the Rio picture, the fare differential in Braniff's favor on his through service Rio/Havana and the necessity of eliminating it. In the rest of the letter comments on Montevideo are limited to the statement that we are faced there with the problem of "competitive carriers waging an exchange war and by selling in Argentine pesos or Brazilian Cruzeiros or a [fol. 710] combination of both, underselling us very seriously". The remainder of the letter is devoted principally again to Rio and Braniff.

There is not one word of explanation in the letter as to why the Montevideo market has been so completely neglected by the Buenos Aires sales promotion staff. The only encouraging statement in the letter is that Bourne's office will call weekly on Montevideo.

I think this is pathetic.

McCoun's letter contains a good deal more meat principally, I think, because he undertook to secure some sales statistics requested by New York. However, there is no attempt to analyze these statistics and the monthly sales were not added up to give 11-month totals, and the letter generally has quite an amateurish tinge. Here again, however, the last two pages of the four-page letter are devoted

to the Braniff/Panagra competition to such an extent that one of the immediate steps McCoun is taking is to complete breakdown of the "Elapsed Times" out of Montevideo to Buenos Aires connecting Panagra to all South American west coast points and principal cities in the United States, as compared to Braniff "Elapsed Times" via PAA to Rio with connections there with Braniff. (underlining mine). Far more important than this is a breakdown of our "Elapsed Times" vs. those of Pan American and the active selling of Panagra for travel to the United States vs. Pan American.

Sincerely yours,

sgd. ANDREW B. SHEA

c.c. Mr. John T. Shannon

[fol. 711]

GOVERNMENT'S EXHIBIT 308

January 13, 1950

MEMORANDUM TO: MR. A. B. SHEA

Do you see any significance in the fact that southbound out of Miami Pan American is carrying 25% of the movement to Buenos Aires, whereas northbound to Miami they are only carrying approximately 15% of the movement? In other words, Pan American seems to be getting a better share of the business out of the United States than they are to the United States.

Furthermore, with our running DC-6's versus their DC-4's, actually Pan American carries 7091₂ passengers down the East Coast to Buenos Aires versus Panagra's 7081₂. Don't you think we ought to get at least 2₃'s of the movement?

If these figures are another proof that Pan American is not handling our sales as carefully as they should be, can't we get any breakdown showing the number of through non-stop passengers who travel to and from New York Washington and Buenos Aires?

It is difficult to see why anyone would travel down the east coast on a trip involving fourteen hours more time if they knew the facts. This would be a very strong indication that prospective passengers are not being told all the facts.

Are we continuing to have checks made at the different [fol. 712] Pan American counters and at the different tourist agencies in Chicago, Los Angeles, San Francisco, New Orleans, etc., to see whether or not Pan American is telling people about Panagra's better service?

J.P.G., Jr.

[fol. 713]

GOVERNMENT'S EXHIBIT 309

MIAMI, January 18, 1950

MEMORANDUM TO MR. ANDREW B. SHEA

In a discussion with Baker, at one point he said he would rather have a deal with Braniff if he goes to Buenos Aires since Braniff does a much better selling job than Panagra's agents in the Argentine or than Panagra's agents in the U. S. and even possibly better than Panagra's agents in Lima.

Both he and Sternberg said that Pan American was selling their own service over ours constantly, and attempted to prove his point by asking me to go down and look at the Pan American, Miami Beach office where there was no Panagra literature, also to check in Cuba where Pan American is selling Braniff to Lima and Pan American to Rio. Baker also cited the Montevideo situation as showing that we are not at all aggressive saleswise.

I naturally answered by stating that you were taking all these things in hand etc. but I think the Pan American Miami Beach window and the Havana situation should be checked into and the Uruguay situation fixed immediately along the lines of your letter to Doag Campbell concerning

Bourne's and McCoun's reports. On this latter point, how long do we keep people who write reports like that?

J.P.G. Jr.

cc Mr. H.L. Clark—You might get started on the Miami Beach window immediately and find out from Kirkland why he doesn't check these things.

J.P.G. Jr.

[fol. 715]

GOVERNMENT'S EXHIBIT 311

Vice President Morrison E. Balluder

Latin American Executive

Miami New York

July 28, 1950 CONFIDENTIAL

PANAGRA

I had lunch yesterday with Howard Clark and Gustave Vidal who discussed with me some of their ideas about non-cooperation on the part of Pan American.

1. They again brought up the question of separation of sales activities in Buenos Aires which had been discussed between Mr. Peter Grace and Mr. Trippe, and on which Mr. Grace still expects a decision. I told Messrs. Clark and Vidal that to the best of my understanding the decision had already been made negatively.

2. Assuming that our relations in Buenos Aires continue as at present, they talked about the advisability of having Bourne and his secretary take space in our offices in the Shell Building to which I had previously agreed.

3. They brought up the case of Smith. Panagra has lost confidence in Smith whom they consider a one-hundred percent Pan American man. They are annoyed because Smith leans toward Pan American for what they call "favors".

They are very jealous because Smith talks to us about his housing problem, his automobile plans, his vacation plans, etc. They again bring up the fact that his bonus is paid by Pan American without participation from Panagra and that consequently Smith has become a Pan American man who does not serve their purposes well any more. I expressed my surprise at their attitude because after all CAPAASA is a one-hundred percent owned Pan American company and Smith as an employee of that company should naturally look to his employers for the matters they mentioned. They referred to our contractual understanding that we would consult with them on CAPAASA matters, but I told them that these were small routine affairs with which nobody in New York should be bothered, and that they themselves should not be worried about because they had competent men in the field like Jimmy Walker, with whom Smith was in constant contact, and Campbell who spent a great deal of time down the line. Obviously they are building up a case against Smith. They suggested the [fol. 716] advisability of transferring Smith out of Buenos Aires to be replaced by a new man who was not prejudiced against Panagra. I told them that was impossible and that I felt that Smith had served them satisfactorily as an agent and that their apprehensions about his discriminatory attitude were unfounded. I did not convince them and I expect further trouble along this line.

5. They again discussed the division of express out of Miami. Mr. Dean at one time had agreed with them that we would endeavor to split the volume of express from Miami to Buenos Aires on a fifty-fifty basis with Panagra. They now feel that they should have the entire volume because Pan American gets the whole movement out of New York. I informed them that I could not understand what New York had to do with it, that Pan American had a certificate to serve New York while Panagra had not, that we had tried to live up to our agreement about Miami and saw no reason why their share of the volume should be increased. They brought up the fact that they had the fastest service to Buenos Aires and should have the right

to carry all the express to that point instead of it being routed via the circuitous route down the East Coast which required trans-shipment. I agreed to ask you to look into this matter further. Therefore, please let me have some information on the volume of express being carried respectively over the the East and West Coasts to Buenos Aires from Miami.

6. In a subsequent conversation with Mr. Shannon, he suggested that Pan American should permit the whole Miami/Balboa route to be referred to as the Panagra West Coast route to Argentine as contrasted with Pan American's East Coast services. In other words, he wants the name Panagra to describe a route comprising both the present Pan American and Panagra sections. In effect their present advertising campaign which is being done over our protest is endeavoring to do precisely that.

E. Balluder

[fol 719]

GOVERNMENT'S EXHIBIT 313

LIMA, August 13, 1950

MEMORANDUM TO MR. ANDREW B. SHEA

As you will note from the attached, John Kirby's flight was delayed in departing from Miami, by ten hours.

When he received the standard Porter Norris letter of apology there were, of course, the usual references to "clipper" flights which, in my opinion, is wrong (and I haven't changed on this in the last four years), and what is really out of this world in ridiculousness, an advertisement for the "El PanAmericano".

How Pan American thinks it is fair for them to circularize our passengers, explaining what was a lousy performance, and then to hit them with propaganda on what is really our toughest competition today down the East Coast, is be-

yond me and it shows again that we are dealing with a bunch of chiselers who have to be watched every inch of the way.

Why can't the reference to "Clipper" be taken out, including the hope that future "Clipper" flights will be better, etc.?

This is a clear invitation to fly on Pan American World Airways and the flight that should be referred to is, of course, El Interamericano. Can't we get this agreed to?

I feel that the attached letter from John Shannon to Porter Norris, with a copy to Balluder, is one of the worst possible ways to get any action out of Pan American on this matter. [fol. 720] It seems to me that we should scream to the high heavens concerning Pan American's having sent a pamphlet advertising "El PanAmericano" right at the top and not bring this out in a letter to Porter Norris as "an additional point", stating that it might be "inferred".

If we go after Pan American in this Mamby-Pamby way, we can expect a continuation of the kicking around we have been getting for years, which brings me to the fact that the following clause in the Panagra-Pan American General Sales Agency Agreement was interpreted by a Panagra executive as precluding Panagra salesmen making solicitation calls on travel agencies without being accompanied by a Pan American representative:

Pan American Airways "making personal visits in the United States to the sales representatives, to sub-agencies, and to persons and firms which have been or which are potential customers, for transportation via Panagra, it being understood that, if Panagra so requests, a representative of Panagra may accompany Pan American's sales representatives on any such visit"

I am not a lawyer but there doesn't seem to be any preclusion in this clause to Panagra's making individual unaccompanied visits and no exclusive right to Pan American to make sales contacts. The point I am making is how has

this been interpreted in the exact opposite way (which seems particularly stupid now that Pan American has agreed to the reverse) for so many years by the Panagra executives. Isn't this just another proof that you don't have any aggressive associates?

J. P. G. Jr.

Enc. letter of 7/20/50 from Porter Norris to JTK
letter of 7/25/50 from JT Shannon to Porter Norris

[fol. 721]

GOVERNMENT'S EXHIBIT 314

29 January 1951

NOTE TO ADMIRAL TOWERS:

The following summarizes impressions gained from a review of the Executive files.

CAPAASA: (Compañia Argentina Pan American Airways S.A.)

This organization is the General Sales Agent, 100% PAA-owned, which is responsible for the traffic and sales activities in B.A. for the three companies, PAA, PUA, and PAB. Mr. Balluder is the President, Dr. Negri Morano is the Vice President and Mr. George P. Smith is the General Manager. Mr. Juan Holms is the Traffic Manager and Mr. Rodrequis is in charge of Sales.

The major operating problem of CAPAASA appears to be that it is working for three carriers who to a certain extent are competing with each other for available traffic. The major contention of course is in the Argentine-U.S. sales via Panagra's west coast route vs PAA's east coast route. CAPAASA personnel are reported as trying to sell these impartially but it does not work out in actuality because of 1) presence and influence of Panagra's sales, advertising, and airport operating staff in B.A.; 2) Constant pressure by Panagra officials, which is understandable since

B.A. is probably the major traffic generating station for PGA hence of very major importance to them, and 3) PAA officials are too busy with other System affairs to devote as much time to B.A. as Panagra officials do.

R. W. B.

[fol. 723]

GOVERNMENT'S EXHIBIT 316

WALTER THOMPSON ARGENTINA

Report of call covering several meetings on
Pan American Airways

Present for Clients: Messrs Juan Homis,
Enrique Silvetti,
George Smith:

Present for J W T: Messrs M L Stiver,
Juan E Claus,
J B Robinson.

Mr. Watson's memo of March 12th was reviewed in detail, as well as the layouts which accompanied his memo of March 19th. Everyone agreed with the basic premises, subject to some modification due to local conditions.

The client feels that the "world's best-airline" theme should be included in each advertisement, but that the primary emphasis should be on positive selling features aimed at regaining the US traffic which has been lost mainly to Panagra's El Interamericano as well as to the Argentine Airlines. Competition from the latter is not as serious now that (as of a month ago) the Argentine Airlines revised its rate structure upward to a par with PAA and Panagra.

- 3) The primary competition is with Panagra, and secondary with Argentine Airlines and Braniff, all of which have DC-6 service at present.

- 4) Over 80% of the US traffic originates in greater Buenos Aires, and the balance primarily in the larger interior metropolitan areas.

March 30th, 1951

AW Barnett

cc: Messrs. JHoms,
ESilveti,
EFoss,
CHWatson,
JBRobinson,
JEClaus.,
MLStiver.

Encls:

[fol. 724]

GOVERNMENT'S EXHIBIT 317

April 4, 1951

Div. Traffic Sales Mgr.

Latin American

MIAMI

Traffic Manager

Pan American Argentina, SA

BUENOS AIRES

Private & Confidential

From the recent exchange of correspondence between your office and Mr. Muhlheid's office we note that both of you are preoccupied with the preponderance of Panagra over PAA's sales to the USA in the Buenos Aires territory. Most of the factors contributing to this situation have already been discussed and are being worked upon by those who are in a position to contribute.

At various times I have called to your attention the direct sales activities undertaken by the personnel in the local Panagra office. At first this started out to be merely social contacts at the homes of these persons and at the American Club. Later, we were required to permit the Panagra representatives themselves to contact the local travel agents

(accompanied by one of our CAPAASA employees) and the Panagra personnel told the story of Panagra to the travel agents even though this already had been done by our CAPAASA personnel.

The next step taken was that some six months ago Mr. Jorge Milberg was hired by the local office and under direct instructions from the executives of Panagra office he was to contact all RSA passengers of any importance arriving from the East Coast via PAA or arriving via the West Coast by Panagra and render them special attentions in the direct name of Panagra. This contact work was in direct duplication of work which was already performed in a neutral basis by local CAPAASA personnel and there were frequent occasions when this duplication created confusion to the annoyance of some of our passengers.

It now appears that the local Panagra office has instructions to proceed to engage in direct sales activities both in Argentina and Uruguay. I already reported to you on the two weeks trip to Punta del Este by Mr. Bourne and Mr. Milberg to contact the movie stars and reroute their return to the United States via Panagra (this trip entailed considerable expense and, as you know, PAA will probably be required to pay 50% when the final accounting is made). [fol. 725] The latest and more barefaced violation of the neutral sales position which George Smith and I have always tried to preserve here in Argentina came to my attention last week. It seems that some time last December a Mrs. Keller from the Memorial Hospital in New York City came to Argentina for the purpose of selecting 14 Argentine nurses who were to be awarded two years scholarships in the United States. Apparently, Mr. Bourne was the only one in Argentina who knew about this mission and he proceeded to make the contact with Mrs. Keller upon her arrival and even arranged to have himself appointed chairman of the Committee who were to select these nurses for scholarship. Mrs. Keller returned to the United States and Mr. Bourne and his committee selected the nurses. Mr. Bourne booked 13 "no name seats" for these nurses on El Interamericano flight of March 31st and it was not until two days prior to the departure of these nurses that anyone

in the CAPAASA office new of this movement of passengers. The point I would like to make about this case is that while every sales representative of CAPAASA, including George Smith and myself, is constantly impressed by Panagra of the need for CAPAASA personnel remaining neutral in regard to competitive traffic, as you can see the Panagra personnel on duty here in Argentina do not feel required to preserve this same neutrality and protect PAA interests. The many social and other contacts made by Mr. Bourne, Mr. Milberg and the many Panagra vice-presidents who visit Buenos Aires permit them to promote Panagra wholeheartedly to the complete exclusion of PAA. CAPAASA personnel are always required to tell both sides of the story and it is this situation which I wish to call to your attention once again which is certainly one of the factors contributing to the fact that in 1950 this office sold 1662 seats via Panagra to the United States against 787 to Pan American World Airways System.

Juan Hems, Jr.

JH:ck

cc: General Sales Mgr - NY
N P W L Lipscomb - NY
General Manager - Bue

[fol. 726]

GOVERNMENT'S EXHIBIT 318

General Sales Manager,	Divn. Traffic Sales Manager,
Sales,	Latin American,
New York, N Y	Miami, Florida

April 4, 1951

PANAGRA PROMOTION.

Attached you will find copy of memo just received from Juan Hems, which is self explanatory.

We in this Division have been aware of these practices for some time and I think we should not hesitate any longer in bringing this to the attention of top management to find out just where the line is going to be drawn.

.....

Only recently the Panagra representative and Mr. Bourne proceeded from Buenos Aires to Montevideo to pirate members of the group of movie stars who had flown on a charter from New York to Montevideo. The Panagra representative offered these passengers every inducement to return via the West Coast. As we all know, Panagra maintains a staff of representatives in Buenos Aires, who evidently spend most of their time pirating business which has been already sold, instead of creating new sales.

I sincerely hope that this pirating can be stopped and that the efforts of Panagra as well as ours be used to create and develop new business, and if we have to pirate, let's be sure and see that the victim is Braniff or some other competitor and not one of the family.

Original signed by PORTER NORRIS
Porter Norris

PX:b

cc: VP,LAD,MIA

VP,T&S, NYC

Dv Mgr,LAD,MIA

Dv Acctnt,LAD,MIA

Traf Mgr,PAArg,BUE

Gen Mgr,PAARg,BUE

[fol. 729]

GOVERNMENT'S EXHIBIT 320

Pereira, April 28th, 1951

MEMORANDUM TO MR. ANDREW B. SHEA

I don't see how Pan American can make anyone believe that the situation that existed when the 1929 letters were exchanged, continued on indefinitely.

What about the extension of Panagra over the Andes to Buenos Aires which is so lightly glossed over by Pan American's petition? Didn't this immediately make Pan American and Panagra competitive? How would the Department of Justice feel about Pan American Airways con-

trolling both coasts and both services to Buenos Aires when there should be competition there which we fortunately have provided them despite their misleading allegations?

There have been any number of changes in the pattern which they went along with and which are completely inconsistent with the letters which they are now screaming about, proving that both partners agreed to changes, nowhere near enough, of course, as circumstances changed.

With all the screaming about Grace and its railroads, etc. I hope that the Government will not lose sight of the main issue—Panagra, which has lagged behind the entire certificated aviation industry in growth of revenue passenger miles, revenue passenger miles, air express and freight on miles, etc.

Name any yardstick and Panagra will be shown to have failed to have kept the pace—so much so in fact that J O'C said "I would think it should be L'd if I were a government official".

[fol. 730] If the figures were this bad, why not use them to prove that Panagra must get its airplanes through to New York immediately?

When we get all finished, the proof of the pudding is in the fact that Panagra is the only airline that has been unable to obtain what the President of the United States and the CAB itself have recommended for it. It is the only airline that has not come through to its main terminal. It is the only airline that covers its main route by interchanges. The cause of this uniquely unfavorable position is Pan American and only Pan American.

The record shows that Grace did everything in its power to get Panagra's own certificate for its main line terminus to terminus which every other airline has.

It seems to me that this is the point that we should stress in our answer to Pan American's petition.

I hope, in the light of their lies, smoke-screens, distortions, etc. that you, Burns, Cahill, and O'Connell, will throw the book at them with everything that you have.

J. P. G. Jr.

[fol. 735]

GOVERNMENT'S EXHIBIT 324

COMPANIA DE AVIACION PAN AMERICAN
ARGENTINA, S.A.AVENIDA ROQUE SAENZ PENA 788
BUENOS AIRES, ARGENTINA

T. E. 33-8581

Buenos Aires, May 18th, 1951.

Mr. Porter Norris
Division Traffic/Sales Manager
Latin American Division
MIAMI.*Personal*

Dear Porter:

Many thanks for sending me a copy of John Muhlfield's report of April 25th. I only hope you will reread two sentences of this report, namely, "The situation in Buenos Aires, however, instead of improving is deteriorating to the extent that it is no longer possible for Capasa to maintain System policy and a neutral sales position because of the direct sales activities of Panagra representatives who are based there". . . . "The situation in Buenos Aires requires immediate attention for it concerns System sales policy, not necessarily individuals". For over three years now I have had to put up with this situation and I can assure you that it just about has ruined my disposition. The best example I can think of is that of the boxer, who knows he is just as good as his opponent, to be put into the ring with both hands tied firmly behind his back and his opponent with both arms free jabbing at him from all angles while the referee calls foul on the boxer with his hands tied for butting with his head. This example is absolutely no exaggeration and I can assure you that if I ever had to do it again I would not let myself be put into this very disheartening and demoralizing situation.

The best solution I can think of, providing the big fight in the Chrysler building does not result in the elimination

of the local Panagra office, is to place me in the same position as Bourne on the PAA side of this situation and let me go to work on them. I guarantee I will get my year's salary back for PAA within one month. I am really quite serious about this proposal and wish you would discuss it with Mr. Morrison as just during the past few days I have discovered that the only thing that is wrong with my disposition is the frustration of the sales situation I find myself in. It has made me difficult to get along with both in the office and at home and unless Bourne and his activities are taken out of here I am going to find it very very difficult to ever take a neutral view of things as I find a terrific sensation of well-being comes over me when I can route some of my Panagra-minded friends on "El Presidente".

[fol. 736] You and I have seen eye to eye on almost everything. Both of us have been salesmen all of our lives and both of us have the PAA System deep in our hearts. Just stop for a moment and imagine yourself in the exact same position which I have been for three years and then I think you will have a clear conception of the frustration of which I speak. I would certainly like to come up to Miami in a few weeks to discuss all these matters with you and also to attend to some important matters concerning some investments of my father's. I would appreciate it very much if you could arrange this for about the second week in June.

Kindest personal regards,

Sincerely,

Juan Homs, Jr.

JH:cek

[fol. 737]

GOVERNMENT'S EXHIBIT 325

MEMORANDUM

Yesterday afternoon Willis Lipscomb repeated to me in front of Jim Nason that Pan American did not intend in any way to promote sales over PAB's Lima-Rio route as far as U.S. passengers were concerned. He said that they

would not help to develop sales because this route when used by U.S. passengers was competitive with Pan American.

Pan American is of course PAB's general sales agent in the U.S. and in addition PAB is a part of the "System".

This is an interesting position taken by Pan American in view of the fact that they are also general sales agents for Panagra and Panagra competes with PAA for U.S. traffic to and from Buenos Aires.

I understand that Lipscomb has made the same statement to Ed Bern and I believe others in Panagra.

H. L. C.

cc: ABShea

[fol. 740]

GOVERNMENT'S EXHIBIT 328

Mr. George Smith
General Manager

Vice Pres. Balluder

CAPAASA

Executive

Buenos Aires

New York

June 26, 1953

Panagra Sales Force

CONFIDENTIAL

Mr. Morrison tells me that Panagra have increased their sales force in Buenos Aires to six men on the street promoting Panagra transportation and that Panagra is out selling LAD, Buenos Aires USA five to one.

I spoke to Mr. Bern who tells me that Panagra has not increased their traffic representation for the past few years and it still consists only of Rowe and his assistant, Jorge Milberg.

In order to clear up this matter, please advise me just how this situation stands.

Erwin Balluder

ER:mac

[fol. 741]

GOVERNMENT'S EXHIBIT 329

COPY

PERSONAL

BUENOS AIRES

August 13, 1953

Mr. Edward G. Bern
Vice President & Sales Manager
Pan American-Grace Airways, Inc.
New York City.

Dear Mr. Bern:

For your private information and further to our recent telephone conversation, I would like to give you the details and background of various comments concerning the Sales Promotion Office which were made to me by George Smith during the occasion of Mr. Wilbur Morrison's visit to Buenos Aires.

Approximately a month and a half ago the CAPAASA Personnel manager requested me to advise him of the specific functions performed by the various members of our office. After complying with his request I casually inquired as to why this information was needed and was advised that Mr. Smith had asked for it. Several days later, I asked George Smith the same question, and he informed that the LAD people in Miami were interested in this office and wanted to know how many people were involved and the functions of each.

I heard nothing further in this connection until George Smith took me aside on the occasion of a cocktail party he offered for the top employees of CAPAASA in honour of Mr. Morrison. He indicated at that time, in a confidential manner, that Mr. Morrison had questioned him at length regarding the Sales Promotion Office and had shown great interest in its functions. Mr. Smith alluded to the possibility of there being some changes at a future date as regards the existence of the Sales Promotion Office and the things we were presently doing. I asked him exactly what he meant, but was told that he would discuss the mat-

fer with me after his return from a two week trip to the U.S. He did mention, however, that he thought that neither I nor Milberg would be able to continue to visit the local travel agencies independently, and that in all probability we would have to go back to the old arrangement where contacts were always made in the company of a CAPAASA representative.

It is my feeling that this renewal of interest in the Sales Promotion Office on the part of the LAD people can probably be attributed in part to a desire to strengthen PAA sales in this market now that they will shortly be operating DC-6B equipment on all of the East Coast flights. In this connection, and as we have already advised you by cable, we have learned that the CAPAASA Advertising Department will break large size ads in most of the B.A. newspapers on August 19th, announcing PAA's new East Coast service. These single ads, apparently will constitute the only deviation from their regularly scheduled advertising campaign.

As I feel certain that with the incorporation of the new DC-6B equipment, effective August 16th, LAD will put the pressure on CAPAASA for increase of sales in PAA's behalf, you may be sure that I will keep my eyes open for any activity which may be prejudicial to Panagra's interest.

S. R. V. ROWE
Roger V. Rowe

RVR:GMF

cc: Mr. D. Campbell—NYC

[fol. 745]

GOVERNMENT'S EXHIBIT 332

FOR USE BY
ADDRESSEE

M E M O R A N D U M

SEND ORIGINAL BY DATE October 10, 1953

TO Div. Trf. Sales FROM Traffic Sales
Manager ManagerDEPT. DEPT.
OR DIV. Latin OR DIV. Pan American
American Argentina, S.A.

LOCATION MIAMI LOCATION BUENOS AIRES

STD. FORM. 9-29

SUBJECT: MONTHLY SALES REPORT—BUENOS
AIRES, SEPTEMBER 1953.

REFERENCE:

CAPAASA System sales for the month of September totalled \$588,945.00 dollars. This marks the third consecutive month of sales above those of the same months of 1952 and it now appears more than likely that this will be true for our sales for the rest of the year. If this should prove to be the case, the half million dollar gap between 1952 and 1953 sales first noted in the July report, will no longer exist when the final figures are in.

For the fourth consecutive month Pan American gross passenger sales exceeded those of Panagra. Pan American accounted for 48.32% and Panagra 41.31% and interline 8.81% of the total. Only 1.36% was for Panair do Brasil.

At the same time agency production went down again a couple of points to 61.71% for PAA and 60.53% for Panagra. It is also interesting to know that the agents did not sell Panagra in preference to Pan American

by more than 2 to 1. This time, taking the first 15 agents as a reference, they sold 57.39% for Panagra and 42.61% for Pan American. Apparently, the fact that Pan American now offers on-time performance with DC-6B equipment has finally begun to influence on agents and the travelling public in their choice of routes, particularly to the United States.

[fol. 746] COMPETITION.

Pan American's gain of one percentage point so far has been at Braniff's expense and since Aerovias do Brasil is now a negligible quantity and the traffic of Aerolineas is a matter of discounts, a future Pan American gain can only be a Panagra loss.

Fred F. Plimpton

cc: VP Traffic & Sales—NYC
 General Sales Mgr.—NYC
 Sales/Advertising Mgr.—LAD—MIA
 Sales Analyst—NYC
 Div. Sales Analyst—MIA
 General Manager—BUE
 Accountant—BUE

[fol. 747]

GOVERNMENT'S EXHIBIT 333

Copy of handwritten letter—

Delray, Florida
 March 13, 1930

Dear Roig,

AVIATION—I have your No. 2. We went into this business because we felt that in view of our big investment in steamers we should become a party to this new branch of transportation which will yearly become more important and which in ten years will be a real competitor of our steamers. We felt that if we got the mail subsidy we could

put ourselves in a position in ten years to meet any flying competition.

We have had difficulties but for a new business it has worked out quite well. In fact remarkably well considering the fact that none of us have as yet made an intensive study of it on the ground.

Now to consider selling out and abandoning aviation in South America because we find it difficult to deal with Trippe is I think a mistake. The amount of profit that we could make by doing so is to me quite immaterial.

We started out on a project which we considered would have future importance to us. We knew when we did so that a 50-50 partnership might be difficult to work out. I am not in favor of quitting now.

I do not think that Trippe will last because he has no ability except as a promoter. I know nothing of the reported January profit of \$20,000. How is it figured and [fol. 748] on what capital? January, February and March are the big months of the year and are not a criterion.

As an operator of a business enterprise I do not think he will last—I know the type quite well. Meanwhile I appreciate that we will have to have patience, infinite patience, and that is a *wearisome* task. Furthermore we will have to avail of our superior knowledge of South American business and our superior ability to manage it and get out on the ground and make a success of it. I do not believe that Trippe can sustain his claim to a right to sacrifice Panagra interest for the benefit of PanAm. That is illogical, it is utterly unfair, and we can certainly make Hoyt see it.

If Trippe gets into his head the idea that he is going to be able to buy us out, then your task will be greatly increased in difficulty and in fact made almost impossible. He will have no interest in making Panagra a success until he has got rid of us in fact will try to induce a failure so as to buy us cheap.

My opinion is that the first thing to do is to convince Trippe that under no conditions are we going to sell and

then to shift the real management of the business *to the other end and get on top of it and manage it*. You can then reduce the talking to Trippe to a minimum.

Even if we decided today that we *wanted to sell*, this would be the best plan to follow.

Yours sincerely,

D.S. Iglehart.

[fol. 749]

GOVERNMENT'S EXHIBIT 334

April 21, 1930

MEMORANDUM FOR MR. GARNI

AVIATION

I noticed in Redshaw's letter No. 957 that he recommends our getting out of this business. I think it would be opportune to write quite a strong letter to him telling him definitely that we are not going to get out of this business. We went into the business because we felt that in ten years from now air transport would be an important competitor of steamer transport in which we have so large a capital investment, and we felt that we, as a matter of policy, should begin to learn and develop this air transport work. From a broad standpoint we must be in this competitive line and with the American mail contracts we have an exceptional opportunity, not only of developing a successful business, but of making money out of it. But, it can only be done if all of our men and particularly our men on the Coast are giving enthusiasm and confidence and a very strong effort to making it a success. Therefore, I think it important to write to Redshaw a strong letter, telling him that we are not going to sell and that we expect him to get his back and his shoulders into the support of this business. We expect him and all of his men to give the time and attention to it. We consider it is up to him more than anyone else to see that this business is made a success in Peru. [fol. 750] I think you should consult Roig as to the exact terms of this letter, as obviously you want to say nothing

that would conflict with his views as to our relation with our partners. We must get it into their heads.

D. S. L.

D. S. Lislehart

[fol. 751]

GOVERNMENT'S EXHIBIT 335

October 15, 1931

MEMORANDUM TO: MR. ROIG
MR. PATCHIN
MR. COGSWELL

AIRWAYS

I am anxious, as I know you are anxious, to see the traffic of our planes built up in a very aggressive way.

We know from our experience with steamers that the handling of the whole problem of passenger traffic is a highly specialized one and that this traffic is satisfactorily developed only in the hands of men of specialized experience and capacity. You know what Crowder has done and is doing in our passenger traffic at present, and what Young did. Now I think the time has arrived to get hold of a passenger traffic man who understands all of the tricks of the trade including publicity, and set him to work on our passenger traffic problem with the idea that he will work out a program with you here and then go down and move from point to point developing that program and educating our men in carrying it out. I believe that if you get the right man and get the right program it might result in a very great increase in your movement.

Why not talk over the idea with Mann, Crowder, and Young, who are all here now, and see whether you cannot get a practical suggestion and get hold of a man who would not only build up the air traffic but would build it up in a [fol. 752] way in which it would not necessarily draw traffic away from our steamship line, but on the contrary would tend to build up the whole movement to and about South America and by getting these steamer and air traffic men

working together, we would build up a movement that would be reciprocally beneficial to the two interests.

I appreciate the fact that steamer and air traffic are competitors, but I believe that by handling the whole matter as I have indicated we may avoid the prejudice of competition and even get general benefit from it.

D. S. I.

[fol. 753]

GOVERNMENT'S EXHIBIT 336

March 29, 1932.

MEMORANDUM FOR MR. ZALEES:

Mr. Hargy, the Panagra traffic man at Cristobal, after a trip over the lines, has made the statement in a report that he considers Panagra would do better in the sale of passenger tickets at Buenaventura and Guayaquil if represented by agents who do not also represent steamship lines, which may, in a sense, be considered competitors; he recommends that at all events in each office one man be delegated whose sole duty will be to attend to Panagra business and who will have nothing to do with the sale of steamship tickets.

This is a criticism which, in view of our partnership arrangement, we would like if possible to avoid. Our position has always been that inasmuch as each particular agency receives the same commission from Panagra as it does from the steamship company there is in effect more of an incentive to sell an airplane ticket than a steamship ticket in view of the fact that the fare in the former case is generally higher than the latter. There is somewhat the feeling in Panagra, however that the agents do not go out and attempt to sell tickets, pointing out the advantages of airplane travel, but rather wait until approached by prospective passengers. In other words, their position is passive rather than active.

I should appreciate it if you could instruct Buenaventura and Guayaquil to make more intensive efforts to build up the Panagra Passenger business.

W. F. COGSWELL.

[fol. 754]

GOVERNMENT'S EXHIBIT 337

PAN-AMERICAN-GRACE AIRWAYS, Inc.
122 East 42nd Street New York, N. Y.

GV = 85

ORIGINAL AIR MAIL LETTER

Copy follows by steamer

NEW YORK
May 17, 1932

Mr. G. Vidal.
SANTIAGO.

PASSENGER TARIFFS

When you are in the south, I wish you would study the question of making a lower passenger rate between points on our system other than Cristobal to Montevideo.

Our through rate, as you know, figures out 10.8c per mile. Our rate from Lima to Buenos Aires is \$306.00 for 2,505 miles or 12.1c per mile. I have an idea that before long the question will come up on the reduction of these rates. I know that it is complicated due to the fact that 10c a mile on Panair from Miami to Montevideo means a \$600.00 fare and if we have to preserve that fare even though our mileage is shorter there should be no reason why we should not establish a 10c rate as an international rate on our own line where a long haul of, say 2,000 miles is involved. This is necessary for us if we are to compete with the lower [fol. 755] steamship through rates now being studied by the Grace Line.

I am informed that when the \$375.00 through rate New York to Buenos Aires was published, the Grace offices at Cristobal and Lima immediately demanded a lower rate from their points to Buenos Aires. I was asked to maintain my arrangement for passengers proceeding from Cristobal and Lima to Buenos Aires who travel by airplane over the Andes and I consented as a temporary measure, but I think we can use this as a lever to reduce our airplane

rates between these points, at which time the Andes portion of the route could be reduced and we would ask the steamship Companies to pay us full airplane fare on an airplane/steamer tie-up.

J. D. MacGregor.

P. S. Since dictating this letter, we have received the attached Foreign Airmail Contract mileages from Washington as of April 15, 1932. You will note that this new mileage sheet gives our route an additional six miles.

JDM/Q

Ene.

[fol. 756]

GOVERNMENT'S EXHIBIT 338

No. 14808

F. O.
AIR MAIL.

Lima, 20th January 1933.

Messrs.

Grace Line Inc.
NEW YORK.

Dear Sirs:

PASSENGER RATES

On several occasions recently we have pointed out to you the competition we are up against on the Coast, particularly with the Chilean Line, from which you will have noted that our rates are such that it is going to make it difficult to secure our share of passengers from Callao south.

It is also well to note that the aviation services are taking away first class passengers—especially coastwise. Between the Panagra and the Faucett Co., they are carrying 700 to 800 passengers a month, who would be travelling by steamer, first class, if these companies did not exist.

At one time the aeroplane fare was double that of steamers. However, Panagra have been reducing consider-

ably, and are giving a 75% reduction on the return portion of round trip tickets in Peru.

Enclosed herewith is a statement of first class fares on our steamers as compared with fares of the Panagra.

In this we have given the straight fare one way and the round trip. Also we have indicated the shore expenses on steamers, which include transportation of ordinary luggage, gasoline launch to go on board and other small items. This expense, of course, does not apply to planes.

Although the straight one way ticket of the steamers on the Coast is still lower than that of the plane, considering the conveniences of the latter and the saving in time, even this rate makes the aeroplane far more attractive than formerly when there a greater difference in the rates.

[fol. 75r] On the other hand, the round trip rate taking in the shore expenses, is practically the equivalent of the steamship rate. Especially to MoHendo southbound, the cost on this basis is more than by steamer and yet the time by plane from Lima to Arequipa is 4 $\frac{3}{4}$ hours, and by steamer, two days.

Undoubtedly all of this will be of interest to you and is well worth while studying in connection with the other facts we have already mentioned on competition rates with other steamers.

Yours very truly,

p.p. W. R. GRACE & CO.

C. G. Bush

CGBd

[fol. 758]

GOVERNMENT'S EXHIBIT 339

PAN AMERICAN GRACE AIRWAYS, INC.
122 East 42nd Street New York, N.Y.

Letter No. PERSONAL 1251

ORIGINAL AIR MAIL LETTER

Copy follows by second airmail

Subject: GRACE LINE MEETING

LIMA, February 17, 1933.

Mr. J. D. MacGregor, New York

Dear Mac,

Yesterday I gave a luncheon for the Grace Line people now here, that is, Adams from the New York office, Rebstock from Cristobal, Marshall from Buenaventura, Holguin from Guayaquil, Bush from Lima, Heavey from Valparaiso and Redshaw from Lima.

Adams also told me that he felt our rates were now at too low a figure compared to the steamer rates; in other words that we were not on a reasonably competitive basis in that our operating costs should be much higher than steamer operating costs, and that consequently our tariffs ought to be much higher. I did not discuss this point with him, knowing that when the time came we could make as much or little of the economies as we cared to, depending upon the point to be gained.

Harold R. Harris

HRH/FL

[fol. 759]

GOVERNMENT'S EXHIBIT 340

Private 3186

ADVERTISEMENTS

NEW YORK
March 18, 1933.

S.A.G.O.,

LIMA

Attention Mr. J. M. Van Law

I have in front of me a Peruvian Airways Corporation advertisement which has a red background, an airmail cover on the right-hand side, and what looks very much like a Grace steamship on the left-hand lower corner. This advertisement carries the caption AIRMAIL GETS THERE THREE TIMES FASTER. This advertisement seems to have been taken from the WEST COAST LEADER.

As I wrote you some time ago, I believe in connection with the editorial you prepared for my signature in the Panagra Magazine, it is against the policy of this Company to make invidious comparisons with other means of transportation. Such a policy would have the undoubted effect that our own service would be the subject of invidious comparison. There is nothing to be gained by placing ourselves in this position.

I have never, in any of the advertisements issued by the Grace Line or by the Munson Line, seen anything which would intimate that their attitude toward Panagra service was in any way approaching the attitude we have assumed [fol. 760] in the advertisement under criticism.

I shall ask you to bear this in mind as a policy of the Company and one which I should wish ~~to be~~ strictly adhered to. You will, therefore, kindly revise any advertisements which would have the above unsatisfactory tinge and place them in line with the above policy. I have written about this before, as I mentioned, and I should not wish to have to insist that all advertisements be sent to this office for examination before being published.

I am aware that the advertisement is taken from the Pan American Airways System Folder, of which copies are sent to all agents, but information that we give to agents is a very different question in relation to what we publish as a Panagra advertisement.

J. D. MacGregor.

JDM/Q

[fol. 761]

GOVERNMENT'S EXHIBIT 341

March 21st, 1933.

MEMORANDUM FOR MR. MANN:

I am returning herewith private letter 15015 from Lima in reference to Panagra propaganda, together with copy of advertisement in "West Coast Leader", which was enclosed with said letter.

Instructions have been issued to Panagra office in Lima that no invidious comparisons between steamers and airplanes are to be made in connection with Panagra advertising. In view of this, I trust you will find your way clear to instruct that the same of course should be applied in the case of steamers.

W. F. Cogswell.

[fol. 762]

GOVERNMENT'S EXHIBIT 342

Letter No. 206
(D.S.I. Series)

Air Mail 4 28 33

Lima 5 5 33

New York, April 26, 1933

A. Garni, Esq.,
Lima, Peru

Dear Garni,

PANAGRA

I notice your No. 210 to Roig. There is one point that has not been touched upon by you and that is the relative rates of our steamers and of Panagra.

I think that if you will check it up you will find that with the reduced value of Peruvian currency and with the discount for a round trip that you can go from Lima to Arequipa cheaper by plane than you can by steamer and rail. This is a condition which does not exist anywhere, and seems to indicate to me that air rates are getting too low in comparison with steamship rates.

I think you might have Bush put all the facts before you and see whether your Panagra rates have not actually got too low and whether or not there isn't some way of jacking them up, not suddenly or in a radical way but gradually, for we know that these things can be done gradually without calling attention or creating any opposition, whereas if anything radical is done it is spotlighted and always causes difficulty.

Yours very truly,

GLEHART

GOVERNMENT'S EXHIBIT 343

May 24th, 1933.

MEMORANDUM FOR MR. GARNI:

I am returning herewith Lima's letter #10555 in reference to Panagra passenger rates. My own opinion is that we should discontinue all or a greater part of the 75% discount on round trips. However, it is my understanding that this would be inadvisable at the present time from a political point of view in view of the fact that Paucett has given up service and turned over his planes to the government.

While the steamer fare is undoubtedly a factor to be taken into consideration, this would seem to be only the case where steamers and planes both go to the same points and I do not believe we should go as far as Mr. Bush does in the next to last paragraph of his letter of January 20th, in which he compares the cost between Lima and Arequipa including, in the case of the steamship company, the rail fare from Mollendo and comparing the time of 4 $\frac{3}{4}$ hours by air to two days by steamer. The fact that the plane goes directly is an inherent advantage and there would seem to be no reason at all why the fact that the steamer passenger has to go indirectly via Mollendo should be taken into consideration. A more important point is, are the fares on Panagra high enough to enable it to do business on a profitable basis, and my opinion is, that they are not.

W. F. COGSWELL

[Vol. 764]

GOVERNMENT'S EXHIBIT 34

PAN AMERICAN-GRACE AIRWAYS, INC.,
135 East 42nd Street, New York, N.Y.

Letter No. 3010—PRIVATE

Subject: AIR AND STEAMER PASSENGERS—
COLOMBIA. Ref. your #2988.

CRISTOBAL,

September 26, 1933.

Mr. J. D. MacGregor,
New York.

I have your above numbered letter, and the information contained therein is certainly very interesting.

The difference in the percentage of passengers we are getting by air in and out of Buenaventura as compared with those procured by Panair in and out of Barranquilla certainly, on the surface, appears to indicate that there is something wrong somewhere. However, I feel that there are contributing factors in comparing these two particular ports which lead to this difference, other than the important one which you mention in your letter under reply, as being due to the net work in the interior of the country; and, as a matter of interest, I will state these factors which, in my opinion, contribute in the main to this differential.

1. The greater frequency of boat service in and out of Buenaventura as compared with Barranquilla. Both the Grace Line and the Hogag have weekly sailings at Buenaventura, both northbound and southbound. The Dutch Line has a fortnightly sailing in and out of Buenaventura, northbound and southbound; whereas, at Barranquilla, the United Fruit is the only line which has a weekly service, and Grace, of course, a fortnightly service.

2. The fact that embarkation and disembarkation of passengers entering and leaving Barranquilla has to be effected

at Puerto Colombia has indeed resulted in passage by air in lieu of steamship in view of the greater convenience [fol. 765] of embarking and disembarking directly at Barranquilla via plane.

Another contributing factor which, while a most ticklish one to mention, nevertheless exists, is that our Colombian representatives are primarily steamship men. I do not at all wish to make again a misstatement which this office once before made to the effect that our agents are our biggest competitors, but I still feel that the major portion of their contact work and solicitation is obviously along the lines of steamship business. One possible remedy for a condition of that kind, in my humble opinion, is one which would greatly concern the matter of policy with our affiliated companies. Nevertheless, with the growth of passenger traffic by air, as we have observed it in the last two years, I have often wondered whether or not eventually the time would come when we might find it profitable to desire to place in each of our principal agencies a traffic man who would do exclusively airways business and whose salaries, of course, would be borne by us. As stated above, this is purely a matter of opinion and, of course, in view of policy which such a move would involve, thought along this line is not being entertained by us further than an idea of a possible future solution for increasing our passenger traffic.

PAN AMERICAN GRACE AIRWAYS, INC.

T. J. Kirkland

TJK AW
cc HRH

[fol. 766]

GOVERNMENT'S EXHIBIT 345

No. 10,629
(A. G. Series)Air Mail 10.
Lima 11.1

NEW YORK, October 27, 1933.

H. H. G. Redshaw, Esq.,
LIMA, Peru.

Dear Redshaw:

PANAGRA AGENCY COMPENSATION

I think you have already been advised from another desk that we have finally reached an agreement with Panair with reference to a basis for compensating Panair, as well as W. R. Grace & Co. and their affiliates, for services rendered to Panagra.

At a distance it must seem difficult to appreciate that there should have been any delay in arriving at such an agreement but having been close to the conversation, especially during the last few months, I can assure you that to reach a final settlement was indeed a most laborious task and as strange as it may seem to you I might also tell you that not the smallest of the difficulties were the culmination of numerous incidents on the West Coast of minor and greater importance.

In making this indication I do not want to go over the whole ground again in detail but in order that you may appreciate the situation I want to say that an incident such as was reported earlier in the year with reference to the lack of intelligent passenger solicitation in the Arequipa (fol. 767) and other districts, or incidents such as that of one of our employees openly stating and confirming it in a memorandum that when a passenger turns up with an exchange order for a rail or air passage it does not suit

that particular office to encourage a trip by air because if he sold an air passage he would get no commission whereas if he supplies such a client with a ticket by that particular railroad the Grace House would receive a commission of \$2.45, have been greatly magnified in the various discussions. I could give you a number of other similar incidents but I just refer to these specific cases which are foremost in my mind at the moment to bring out the very great importance of seeing to it that every man in your organization is made to understand in unmistakable form that the Pan American Grace Airways Co. is not only of great importance but will develop very rapidly and as far as our organization is concerned must receive the very best service and that in rendering such service the people serving the Airways must leave on one side what they may consider conflicting interests, particularly the maritime traffic, or in other words the Grace Line.

Not very long ago someone presented himself at an office of the Grace Line inquiring as to the quickest way to get to a given point. The particular employee behind the [fol. 768] counter talked nothing but Grace Line and when the client inquired about air service the ticket seller admitted there was an air service but that steamer travelling was a great deal safer.

These incidents should not and must not occur. When we reached a settlement with reference to the general compensation for services rendered we promised to issue definite instructions to all our Managers to the effect that incidents of the above or similar character must not under any circumstances recur and that everyone of our Agents should get whole-heartedly behind this business and not subordinate it in any way to our steamers. I appreciate that this may divert a few passengers from our steamers to Panagra but this is relatively unimportant as in the first place it cannot amount to much per annum and in the second place travelling by air, particularly on the West Coast, is bound to develop very rapidly anyhow over the next few years.

There is another thing I want to mention and that is the fact that especially during the initial stages some of

our agents on the Coast took quite a while to warm up to the idea that Panagra is an important enterprise and a definite part of the Grace Organization and one that will develop rapidly and should, therefore, get first class service. I think this feeling developed during the first year or two, on account of the fact that compensation for services [fol. 769] rendered to Panagra did not come forward as rapidly as desirable and perhaps not in the amounts it was expected. The amounts now fixed for 1932 and 1933, however, will, I believe, leave no cause for dissatisfaction on this score and there can therefore be no excuse whatsoever on the part of any of our West Coast Agencies for not rendering services that will be beyond criticism.

If our head men on the Coast issue definite instructions in about the foregoing sense to every employee who has anything to do with Panagra, all of these difficulties will be definitely overcome and I expect you to make it a point to issue such instructions to each one of the Panagra agents in your territory.

Very truly yours,

(Signed) A. GARNI

[fol. 770]

GOVERNMENT'S EXHIBIT 346

COPY

Letter 1738

Subject: Misses Nathalie Boshko Brown and
Elizabeth Hammond

CRISTOBAL

December 17, 1934

Panagra—Lima

- Please be advised that, on board the "Santa Cecilia", southbound at the present time, are Miss Nathalie Boshko Brown and Miss Elizabeth Hammond. These ladies intend to go to Guayaquil but apparently furnished erroneous information in the Grace New York office as to connections between Lima and Guayaquil, and now find their plans somewhat out of kilter, as the time required will not permit their

proceeding as they intended. Unfortunately, Miss Brown is not much in favor of flying *anywhere*, but we believe that circumstances make these two ladies extremely good prospects for us, and suggest that they be contacted on arrival at Callao.

Miss Brown is a well known violinist. Her trip is apparently sponsored by Yale University, and is for the purpose of recording Indian music on a 100-pound instrument which she has along. The other lady is a member of the same expedition.

In connection with the above, these ladies stated that no information was supplied them as regards our service in the New York office of the Grace Line, although it is perfectly obvious that the use of Panagra would, and we trust yet will, greatly simplify their problems. It was interesting to note that the local Grace people used our literature to dig out information as to train connections, etc., required by this party, and had to refer to us for "dope" on several pertinent subjects about that part of the country.

PAN AMERICAN GRACE AIRWAYS INC.

(Sgd) G. P. SMITH

cc—NY HRH

[fol. 771]

GOVERNMENT'S EXHIBIT 347

PRIVATE

Pan American-Grace Airways, Inc.
135 East 42nd Street New York, N.Y.

Cable Address
"Papagra"

Letter No. SAGO 5726

NORTHERN DIVISION—

Subject: ORGANIZATION CHARTS

Private—Sago 5726

LIMA

August 26, 1935.

Mr. G. Vidal,
NEW YORK.

Receipt is acknowledged of your private letter of August 21st on the subject of "Organization Charts—Northern Division."

I believe that the entire question of whether Panama Agencies should head the "Traffic" and "Administration" on Northern Division organization charts should be held in abeyance pending the temporary duty of Mr. C. E. Blow at Cristobal, as acting accountant during Spencer's vacation, and receipt of Blow's ideas.

There are a number of reasons for delaying action on the final decision in regard to this matter. In the first place, the Grace organization at the Canal Zone is completely a Grace Line office rather than a diversified Grace & Company office such as we find elsewhere at points touched by us. A number of times in the past Brown has shown his inability to look on Papagra business as other than competition—even going so far as to inquire of George Smith what he was doing aboard the Grace steamers soliciting Panagra business. And it also appears that a recent Douglas wing shipment was delayed through action of the Panama Agencies in leaving the wing at Balboa in favor

of a shipment of other freight, thus delaying delivery in Callao by approximately ten days.

With regard to the point #1 in your letter, inasmuch as ninety percent of our local purchases are made from the U. S. Government Departments in the Canal Zone, none of the Grace organization could be of any assistance in securing lower tariffs than the standard prices fixed for all purchasers by the U. S. Departments involved.

Inasmuch as Mr. Brown has no interest in Panagra matters I can see no advantage in his becoming familiar with our disbursements before they reach the commitment stage, particularly since most local purchases in the Canal Zone are purchases made for other points on the Panagra system—especially the Lima repair shop.

H. R. Harris.

HRH:KW

—JDM

2nd airmail

[fol. 772]

GOVERNMENT'S EXHIBIT 348

CABLE ADDRESS "PA
PAN AMERICAN-GRACE AIRWAYS, INC.
135 42nd STREET NEW YORK, N. Y.

LETTER NO.
4581—PRIVATE

Subject: PLATINUM SHIPMENT
FROM BUENAVENTURA

CRISTOBAL
December 20, 1925.

Panagra—New York

We have unofficial information, just received at 7:00 p.m. this date, to the effect that 25 cases of platinum will be available for shipment from Buenaventura to New York on or about December 23rd. On this date the Grace Line

have a vessel leaving Buenaventura, and they will undoubtedly lift this shipment unless we are able to offer a competitive freight rate. In this connection, we refer you to our numerous letters on this subject, which we do not have time now to refer to by number, and ask that you give this matter your best attention and advise us by cable if we can make a reasonable offer to the shippers.

We understand that the consignees, and probably the owners of this platinum are the American Gold and Platinum Co. of New York, and no doubt they control the routing of same ex Buenaventura. Perhaps if you could contact them immediately with a definite offer as to rates, the shipment could be secured for our Company.

Please regard this information as being completely confidential, as our tip came from a source which we most emphatically do not wish to close. We are sending you a week-end cable on this matter which we trust will arrive at yours about the same time as this letter. As we are very much interested in the outcome of this business, we rely on you to give it your prompt attention.

PAN AMERICAN-GRACE AIRWAYS, INC.

G. P. SMITH

G. P. SMITH

GPS: AW

cc: HRI

[fol. 773]

GOVERNMENT'S EXHIBIT 349

4584-PRIVATE

PLATINUM SHIPMENTS
BUENAVENTURA NEW YORK

CRISTOBAL

December 27, 1935.

Panagra—New York

This will serve to confirm our cable No. 13 to MACOR New York, in which we advised you that the platinum shipment, Buenaventura New York, for which we were

negotiating, had eventually gone to our competitors. At this time, we cannot tell just why our agents were unsuccessful in their efforts to secure this business but presume that one of the major factors must have been the absence of any news as to rates until too late. There may have been other reasons as well.

We have now had some additional word on the shipment of 25 cases which went forward on the "Santa Clara". It will be discussed in detail further along in this letter, but we have been given to understand that the shippers demurred from giving our proposition their serious consideration because of the fact that they carry outside insurance on their shipments and claim that the premiums immediately go up tremendously when air shipment is contemplated. In view of the fact that our insurance rates are quite reasonable, we wonder if something cannot be done about this. It should be fairly easy to discover who Choco's underwriters are.

Someone from this office will be in Colombia before the end of January and an opportunity will be had to contact the Choco people personally. We very much hope that you will have worked out something by then which we can offer them and in which they will be interested. Meanwhile, it certainly would not do any harm if one of your staff could [fol. 774] contact the consignees, American Gold and Platinum, in New York.

PAN AMERICAN-GRACE AIRWAYS, INC.

(sgd)

S

G. P. Smith

gps aw

cc HRH JVL

[fol. 775]

GOVERNMENT'S EXHIBIT 350

4611—PRIVATE

PLATINUM SHIPMENTS
URA/NYK

CRISTOBAL

January 4, 1936

Panagra—New York

We attach hereto your copy of our #3694—Private to SAGO Lima in connection with a platinum movement ex Buenaventura for New York.

We are certainly deeply interested in this matter, and will be particularly glad to hear from you as to what progress is being made in regard to establishing a competitive rate for the class of traffic involved. There are several other shippers of treasure located on the west coast whom we would like to go after in case we find that we can compete on even terms with our surface competitors. One of them, as you may know, is the South American Development Corporation, who are primarily gold miners. Owing to their peculiar geographical location, it is possible that a chance exists for us to bring their produce from the mines, at least as far as the coast, and possibly all the way through to final destination if our rates compare in any way favorably with those of the competition. As matters now stand, our carriage rates are based almost entirely on a "distance haul" basis, whereas ocean freights pay very little, if any, attention to this point. Therefore, while water freights from Ecuador might be the same as those obtaining from Colombian ports, ours would be quite different; though, as a matter of fact, we believe we could actually accomplish carriage from Ecuador to New York at a cost to ourselves of little, if any more, than our cost Buenaventura/New York.

PAN AMERICAN-GRACE AIRWAYS, INC.

G.P. Smith

GPS AW

[fol. 776]

GOVERNMENT'S EXHIBIT 351

478 PRIVATE

PLATINUM SHIPMENTS

NEW YORK

January 20, 1936

Panagra
CRISTOBAL

We refer to your recent letters on the subject of platinum shipments, and thank you for the information supplied which has enabled us thoroughly to study the entire problem.

We agree with you that it is most important that we make a determined drive to secure this business. It is believed that the contents of this letter will enable you to obtain results.

Attached herewith you will find cost estimates for air/rail, all air and steamer shipments of platinum proceeding from Buenaventura to New York. These figures are based upon values, weights and number of packages making up the hypothetical shipments mentioned in the last paragraph of your Private letter No. 4584.

A study of comparative costs indicates that air/rail platinum shipments between Buenaventura and New York can be handled more economically and in less elapsed time at our standard rates than if the ores were shipped by [fol. 777] steamer, with the possible exception of lots valued at over \$250,000. The accumulation of such a large amount is unquestionably a costly proposition for the shipper, because of interest and insurance charges incurred while the ores are being held in the warehouse awaiting shipment. It is entirely possible that our costs are lower even on \$250,000 shipments.

It is evident, therefore, that our present standard rates are decidedly competitive, and we are relying upon you and upon our agents at Buenaventura thoroughly to explain to all interested parties the definite advantages of

air rail shipments. It should be an easy matter to make a sale on the strength of lower costs and speedier transportation. We know from your recent correspondence on this subject that you will spare no effort to overcome any difficulties which might arise and to secure the business starting with the next available lot.

G. Vidal

GV:G

cc Buena Ventura

SAGO

[fol. 779]

GOVERNMENT'S EXHIBIT 352

PRIVATE 4846

GOLD/PLATINUM SHIPMENTS

NEW YORK

February 7, 1936

Panagra

CRISTOBAL

In summary it would appear that, while the platinum shipments out of Buena Ventura can be secured by Panagra at competitive rates, gold shipments out of Guayaquil by air/rail would be rather expensive as compared with steamer shipments, even after taking into account the interest saving because of faster transportation and after allowing for the annual discounts based upon accumulated freight charges between Guayaquil and Miami.

We have no intention of going into a cut-rate war with the steamship companies and we recommend that you attempt to secure frequent gold shipments of smaller sizes. These can be handled at competitive rates by air/rail.

G. Vidal

GV:G

cc SAGO

[fol. 780]

GOVERNMENT'S EXHIBIT 353

Letter No. 4

(H.J.R. Panagra Series)

New York, February 10, 1936

J. T. Kirby, Esq.,
Lima, Peru

Dear Kirby:

I am particularly interested in what you say in your No. 11,317 (A.G. Series) with reference to the 40-passenger Douglases. I am a bit at a loss, however, to know the reasons for the feeling both you and Valverde have that we should go into this business and as the matter is of great importance to us, I would be glad if you would let me have your considered opinion in detail. I will have a chance to discuss it with Valverde when he is here.

Unless local traffic in the various divisions could be counted on to fill the planes, we would be thrown back on international traffic, including tourist business. Assuming we had capacity in the northern division equal to the new Douglases we would have with those planes accommodations for 4160 passengers a year, each way. Grace Line in the "A" and "B" services at present has accommodations for 7000 passengers per year, each way. During the last boom period when Grace Line was operating weekly services and PSNC and CSAV were also operating, combined passenger accommodations were 8000 passengers per year, each way. I assume that these figures more or less reflect the extent of the first class international passenger movement at present and during the last period of good [fol. 781] times. I realize that this does not include the movement by coastal vessels but I should think our rates would hardly enable us to hope to get much of this traffic. The question then is whether there is a good possibility of our getting enough of this steamer movement to fill the planes or whether increase in the movement is likely to be sufficient to fill them. Mr. Trippe counts heavily on the

latter factor as he feels that this improved equipment will develop a large volume of tourist business. Our experience with the "Santa Lucia" has, I am bound to say, given a good deal of support to this idea but I still somehow have the feeling that a large percentage of the tourists make the trip because of the time on the steamer and would not be interested in making it by air. I would not from the foregoing be understood as meaning that past experience constitutes an indication of the maximum traffic possibilities. That is not my opinion at all. I believe that traffic will increase. The question is rather as to the rate of increase which we may reasonably anticipate, and looking back over a number of years I think the record shows that this increase has been gradual, with occasional sharp ups and downs, and the question is whether it is not likely to continue more or less in this way rather than by any dramatic permanent increase. In other words, it looks to me as if our next step might logically be a plan with capacity for 20 or 25 passengers with a jump to 40 following after that rather than coming now.

[fol. 782] I realize that all the foregoing will sound very negative but it is not my intention to approach the matter in that way. I would really like to see our way clear to go ahead with this equipment. Unless we join the syndicate owing to the way it is being set up, we may find it very difficult to get this equipment three or four years from now if we should want it and it may even be that if development in this country follows along the lines of these large units, we may find it extremely difficult to get any suitable equipment between that size and our present DC2s. In pointing out the above considerations I have done so primarily with the idea of eliciting your answers to these objections if you feel that the objections are not well founded. I would be glad to find sound answers which would make it possible for us to go into the syndicate. I do not, however, without very compelling reasons to the contrary, want to find ourselves in the position of having taken on a "Normandie" or a "Queen Mary", much less a whole fleet of them.

Very truly yours,

(Sgd.) HOWARD J. ROSE

C

O

P

Y

#11103

(J.E.S. Series)

Guayaquil, February 22, 1936.

A. Garni, Esq.
NEW YORK.

Dear Mr. Garni:

GOLD SHIPMENTS FROM ECUADOR

During 1935 the Banco Central del Ecuador effected four shipments of gold bars to New York, all of which moved on the Grace Line, who received revenue therefrom amounting to over \$15,000 U.S.C. Panagra have recently been working very quietly on this business and a few days ago their traffic representative from Cristobal proceeded to Quito to get in touch with the management of the Banco Central there. A comparison of the Panagra rates for this gold movement shows that these are \$238.16 cheaper than the steamer rates for a shipment valued at \$346,000, which was the amount of the last shipment per Grace vessel.

* * *

In view of this saving, the Banco Central have expressed their intention of making their next gold shipment (sometime next week) by Panagra plane.

I have recalled to the Banco Central management in Guayaquil their experience with us on all their gold shipments last year. Practically all these were made in the most private and confidential circumstances, and many times I have been called from my home at all hours of the night, sometimes having worked from 11 pm until 2 am sending cables effecting insurance, etc. for their a/c. They feel, therefore, very appreciative to the Guayaquil Agencies Company for the services thus rendered.

I feel that to have Grace Line lose this business to Panagra after having handled it successfully for so long, would be most unfair. In addition, I have in mind the fact that when shipments are made on Grace Line steamers the whole of the revenue remains in the organization, which is not the case should Panagra transport the gold. After the Panair's proportion of the traffic is deducted, I believe that the Grace share of the revenue would only amount to some 20% of the total freight, since I presume Panagra would [fol. 78f] take the shipment to the Canal, at which point it would be turned over to Panair as far as Miami, and from Miami to destination some other Line would take a hand in the business. Therefore, on the run Guayaquil/Cristobal Panagra would, I presume, receive say 40% of the total freight paid, and only one half of that amount would remain with the Grace organization.

The Banco Central would be interested in having their shipments continue to be made on Grace Line vessels, provided freight rates could be shaded to meet the difference between plane and steamer transportation. They state that in order to make this worth while to them the rates would have to be rather lower than those of Panagra. As you will see from the comparison given, shipments on Panagra pay a much higher rate of insurance, although the Banco Central inform us that they could probably get this rate very much reduced, which would increase the difference in favour of Panagra transportation. It is noteworthy that the actual freight rates of Panagra are some \$500 lower on the shipment last made valued at \$346,000 than the steamer rates, while an additional 350.00 would have been saved in interest, so that any reduction in insurance rates would make the difference a very large one indeed.

If you agree with my views that Grace Line should retain this movement because of the benefits derived by the organization therefrom, I would appreciate your kindly passing the information on to the Grace Line and have them take steps to reduce freights immediately, preferably through the Conference, or if this is impossible due to the need to make an immediate decision in order to obtain the

next shipment which the Banco Central will shortly make, then if you consider it advisable for the Grace Line to authorize me to make a confidential refund on freights to the Banco Central equal to the difference between plane and steamer rates, I would appreciate prompt advices so that no time may be lost in assuring the Grace Line of this revenue.

Very truly yours,

c.c. Mr. J. E. Zalles

(sgd) MANUEL HOLGUIN

[fol. 785]

GOVERNMENT'S EXHIBIT 355

C

O

P

Y

holguinzal 87 from HOLGUIN (guayaquil), march 4th 1936
1150 am

1 87: our letter

2 11103

gold shipment from ecuador:

3 first shipment

4 amounting to

5 81,000 dollars us currency

6 expected to

7 move

8 pan american grace airways

9 march 6th

i.e. friday march 6th

10 transport

11 charge

12 567 dollars us currency

13 as compared with

14 grace line

15 1,030 dollars us currency

Mr. Garni
Grace Line
Mr Cogswell
Insurance

[fol. 786]

GOVERNMENT'S EXHIBIT 356

No. 11081

(JEZ SERIES)

Air mail 3.9

Arrive 3.12

New York, March 9, 1936.

M. Holguin, Esq.,

GUAYAQUIL, Ecuador.

Dear Holguin:

GOLD SHIPMENTS FROM ECUADOR

Your No. 11103 (JEZ series).

In the matter of placing maritime freight rates on gold shipments from Ecuador on a competitive basis with those quoted by Panagra, the Grace Line have been giving this matter their study and cabled you with their No. 71 and will be writing you separately with their views on the subject.

In the first page of your letter and taking a shipment valued at \$346,000, as a criterion, I notice that even under existing freight rates the shipment of gold by steamer works out at a little more than \$100.00 cheaper than by air (exclusive of interest calculation). I also notice that in calculating interest advantage you figure on the basis of 6% per annum for the five days by which transit is reduced through the use of the air service. I am very interested in knowing where the Banco Central del Ecuador can earn 6% on gold deposits in New York, unless the shipment of the gold is in liquidation of an indebtedness involving a 6% interest payment, and for this reason cabled you with our No. 72 as follows:

"72—YOUR LETTER 11103 PAGE 1 ENTIRE DIFFERENCE DUE TO INTEREST CALCULATION AND UNLESS GOLD SHIPPED IN LIQUIDATION OF A 6% DEBT WE DOUBT GOLD WILL EARN ANY INTEREST VERIFY AND ADVISE"

From a net revenue point of view, there is, of course, an added advantage to the Grace organization through the retaining of these shipments for the Grace Line, but I do not consider that as a general rule, we can take a 6% interest calculation as a basis for the adjustment of rates, even though in this particular case, there may be some reason for using the 6% rate.

Very truly yours,

(Signed) A. GARNI

[Vol. 687]

GOVERNMENT'S EXHIBIT 357

Copy

≡11105

Guayaquil, March 9, 1936.

J. F. Zalles, Esq.
NEW YORK.

Dear Mr. Zalles:

GOLD SHIPMENTS

I duly received your Balcoff cable ≡72 in which you pointed out that the entire difference is due to interest calculation and that unless gold is shipped in liquidation of a 6% debt you doubted whether gold would earn any interest. I replied to this to the effect that while this was true on the shipment which we gave to you as an example in my ≡11103, because of its size and weight, on shipments of lower valuation there was a marked difference in Panagra's favour on transport charges alone, viz. without counting insurance or interest charges.

For instance, I am attaching herewith, for your information, a copy of waybill covering a shipment made last week via Panagra on 189 kilos of gold valued at \$78,000. While the actual transport charges via Panagra amount to under \$600, you will see that by calculating the shipment via Grace Line at the rates listed at the bottom of the second page of my letter ≡11103, that Grace Line transport charges alone would amount to about \$1,000, and it was just this great difference which prompted the Banco Cen

tral to respond to Panagra's overtures. They are very much inclined to reckon on these actual transport charges without taking into consideration the comparatively high rate of insurance on air express shipments, as they believe they can get these down to the level of the insurance levied on shipments via steamer.

I am very pleased, therefore, that you have since authorized me to accept the gold shipments for Grace Line at a standard rate of 2% of 1% ad valorem, with similar charges as have previously been assessed, and had this rate been applied on the shipment covered by enclosed Panagra paybill, actual transport charges would have been about \$600 as against Panagra's actual charges of more or less the same amount. I am very glad you have authorized me to go ahead and close a contract at the fractional rate named, and although I have not yet succeeded in having the contract signed, as the Bank officials here have found it necessary to take up the matter through rather drawn out channels in Quito, I am sure that we shall be able to obtain all future shipments for the Grace Line. Many thanks for your cooperation towards this end.

Very truly yours,

(sgd.) MANUEL HOLGUIN.

[Fol. 788]

GOVERNMENT'S EXHIBIT 358

4780

PRIVATE

PLATINUM SHIPMENTS

CRISTOBAL
March 10, 1936.

Panagra—New York

We are now about ready to begin negotiations with the Choco-Pacifico people for the handling of their platinum movement between Buenaventura and New York but, in view of the contents of your letter No. 4902-Private, feel that, in fairness to our prospective client, we must hold off

until we have something more definite to offer. We believe it can readily be appreciated that shippers would be placed at a very real disadvantage in coming to any agreement with us for a movement such as this Choco-Pacifico platinum if they could not be given sufficient *exact* data beforehand to enable them to determine, before commencing shipments, what the final cost of the movement would come to. For example, at present rates, and with a predictable rebate, Choco might determine that movement by air would be more economical than by other means. Later on, because of an increased air freight rate, the reverse could easily be true, even taking the rebate into consideration, and Choco would then feel bound to revert to water shipments. If this happened to be the case, the predicted rebate due on shipments made by air, but not received by Choco at the time shipment was made, would be materially altered. We hardly believe Choco or anybody else would be willing to give any serious consideration to any such grab-bag proposition, and are convinced that the only way we can hope for any progress in dealing with such important shippers will be to follow the lead of our surface competitors [fol. 789] and offer freighting agreements based on firm prices, unalterable during the life of the agreement. We feel sure that there is nothing unorthodox in making the above suggestion as we have convinced ourselves that it is common practice with such an established firm as the Grace Line, Inc., by their own admittance.

Having had no experience in dealing with the states on-carriers, we hesitate to make any suggestions as to the manner in which our case might be best presented to them. However, we certainly feel that the least we can ask is that they co-operate with us to the extent of offering a firm price for their services for a year, at least.

PAN AMERICAN-GRACE AIRWAYS, INC.

Original

Signed by G. P. SMITH

G. P. Smith

GPS AW
cc HRH

[fol. 790]

GOVERNMENT'S EXHIBIT 359

No. 11,091
(JEZ SERIES)Air Mail 3.23
Arrive 3.26

NEW YORK, March 21, 1936.

Manuel Holguin, Esquire.,
GUAYAQUIL, Ecuador.

Dear Holguin:

GOLD SHIPMENTS

Your letter No. 11,105.

I am glad to note that with the adjustment of the maritime rate on gold you expect to be able to secure all of the future shipments of the Banco Central via the Grace Line.

In the second paragraph of your letter you indicate that the bank is somewhat inclined to disregard the high rate of insurance on air express and that they expect they will be able to bring the insurance rate by air down to the level of that charged for ocean transport.

In checking this matter over here, I am inclined to believe that the rate for air transport of 30c per \$100.00 is very reasonable, and it does not seem probable that the Underwriters will take this risk for any less. It seems somewhat illogical that the bank should disregard a difference in insurance rate, and on the other hand figure closely on interest for the difference in time between ocean and air transit.

While on the subject of interest I would advise you that the Underwriters will only give the 30c rate by air provided that the gold is shipped over land routes. In other words, from Cristobal gold would have to be carried by the Central American route and this makes the period of transit 5 days, rather than 4, as you figured in your letter No. 11,103. The difference between ocean transit 10 days and air transit 5 days on the basis of the very low interest

1002

rates prevailing here, would make the advantage of air travel, from an interest point of view, practically negligible, and certainly not sufficient to offset the difference in insurance.

Very truly yours,

(signed) A. GARNI

[fol. 791]

GOVERNMENT'S EXHIBIT 360

Private
4972

GOLD SHIPMENTS
CORRESPONDENCE

NEW YORK
March 26, 1936

Panama Agencies Co.,
Agents for Panagra,
CRISTOBAL.

• • • • •

As stated previously, our present rates on gold shipments to the country compare favorably with those of steamship lines on small lot shipments and we are confident that your splendid efforts will be successful in obtaining a good volume of such business at our established tariffs. We cannot afford to enter into a cut-rate war with steamship companies for this business.

c. c. SAGO

G. Vidal

OCB:MD

[fol. 792]

GOVERNMENT'S EXHIBIT 361

Letter No. 1

(L.J.R. Panagra Series)

New York, March 30, 1936

M. Holguin, Esq.,
Guayaquil, Ecuador

Dear Holguin:

My attention has been called to correspondence with reference to recent gold shipments from Ecuador.

This happens to be one of the few instances which have arisen involving a conflict of interest between Panagra and the Grace Line. I recognize that in this situation your position as representing both concerns is a difficult one. When such questions arise, however, they cannot be resolved on the basis of relative stock ownership and the interests of Panagra subordinated because our stock interest in that company is only 50%. If this were to be the test we would be automatically disqualified from acting as Panagra's representative.

I do not mean by this that the interests of Grace Line are to be subordinated to those of Panagra. Their representation is also entitled to be properly served. What I do mean, however, is that where a question of conflict of interest is presented, it is incumbent on you as representative of both companies to occupy a neutral position, reporting the facts to the corresponding principals and letting them decide what action is to be taken.

I am bringing this matter to your particular attention as it is one of the first instances of the kind which has arisen and I want to make sure, for your guidance, that our position is fully understood.

Very truly yours,

(Sgd.) HAROLD J. ROE

GOVERNMENT'S EXHIBIT 362

NEW YORK COPY

PERSONAL

CRISTOBAL

June 4, 1936.

Mr. H. R. Harris,
Cristobal, C. Z.

Dear Mr. Harris:

I would enormously appreciate it if you could find it possible to bring up the subject in the attached letter in any conversation in which Mr. Iglehart and Mr. Holguin may participate.

We have been obtaining fine cooperation from Guayaquil, but the matter in question has been held up on two counts:

First—Mr. Holguin is holding up decision until he knows definitely whether Guayaquil will continue as an overnight stop. I have pointed out to him that this is entirely immaterial as, whether Guayaquil remains as such or not, we still need some one dedicated to getting business for us.

Second—In an indefinite manner I have understood that a question of policy is involved, more or less "How can someone go out and drag in business for Panagra, when no one is doing so for Grace Line". I believe this is the more important of the two reasons; and in view of Mr. Iglehart's expressed goodwill you may be able to get us over this hurdle.

A. E. Sinclair

AES/JW

[fol. 794]

GOVERNMENT'S EXHIBIT 363

SUBJECT: M. HOLGUIN—TRANSPORTATION

LIMA

July 16, 1936.

Mr. J. D. MacGregor,
NEW YORK.

Attached herewith please find copy of a letter from Mr. Sinclair to Mr. Beatty, together with Beatty's remarks and also Van's remarks. I am forwarding this matter to you for action since I feel that this is a policy question which I would rather put up to you.

In the first place, while I feel that Holguin has done a great deal for Panagra in many ways, at the same time I feel that he definitely has steered the Ecuadorean gold his shipment from Panagra to the Grace Line, and in such dual capacity has never been prone to give Panagra any breaks which he could give to Grace. In the second place, I have forwarded you a memorandum from Van pointing out that the Grace agency in Guayaquil is apparently doing some tricks in connection with exchange transactions to and from sucres in connection with advances to our employees. In the third place, I feel that if we give the Grace manager in Guayaquil a free pass we can't very gracefully refuse to give a free pass to other Grace managers from time to time, which might not be desirable.

I suggest that you advise Cristobal direct in regard to this matter, sending me a copy of your letter.

/s/ H. R. HARRIS
H. R. Harris

HRH:KW
CC—2nd airmail

GOVERNMENT'S EXHIBIT 364

(TRANSLATION)

PERSONAL

Guayaquil, August 24, 1936

Mr. A. E. Sinclair.
Cristobal

Dear Sinclair:

The fears which I have so often expressed to you have finally materialized; today I was called to the Manager's office and severely reproofed because of my attitude towards Guayaquil Agencies.

You have no idea how badly I feel, having been so completely absorbed by my work, practically tearing myself apart in an effort to find something new and to experiment with some new idea—I have never forgotten my work even at home or in the street—just continually thinking in terms of my job and nevertheless getting nowhere.

I have never found anything but misunderstanding and I don't know but it seems to me that everything related to Panagra is looked upon with a jaundiced eye, they are jealous of it and I cannot understand why they can't be more broadminded and permit each Company to carry about its own business in the best way possible.

As you can very well understand my situation is a most difficult one even though Mr. Kolditz has told me that based on reports he has had about me in the short time he has been in this Office, he had formed a good opinion of me and it is because of this that he is not now doing what he should do, though that would be his duty, and it probably would be different after New York writes him about it—in other words, I can state that I am in the dog house.

If all this came about because I do not perform my duties, because of any misconduct on my part, etc., well and good, but since it is only because of the very contrary, because I am, as someone said jokingly, too conscientious, that really hurts.

The blame for this is mine, and I say mine because it may result from my having tried to give another person something of the same full confidence which I have placed [fol. 796] in you; the reason for this, my great interest in my work; my decision to try to solve my problem as quickly as possible, my belief that because you were not here to serve as my adviser I would therefore need someone else with mature judgment to help me—and so it was that I find myself in my present jam because of a mistake in choosing that person, no one else, but Mr. J. M. Van Law.

If I could have only imagined for even a moment that Mr. Van Law could be so tactless! When I got to the Airport last Friday I asked him if I could talk to him a little later that afternoon, and he was very agreeable so we made a date for 9 o'clock when I would go to see him at the Grand Hotel where he was stopping; and this I did at the time set whereupon he listened to my story and asked me to write to Cristobal regarding the matters I had mentioned and other things listed in a memorandum I handed to him during this meeting.

This memorandum was simply a sheet of paper on which, when returning from the Airport, I had made a few notes regarding things I wanted to discuss with him and that perhaps he might be able to settle that very night so that I might forget some of my problems. Among the ideas and suggestions listed there was, Why couldn't we print some of the Panagra advertisements, our tariffs to the more important cities (passenger fares) in the same way that Grace does, in view of the fact that some of our fares for these

points are lower than theirs--this was more or less the way I presented the matter.

Van Law took the memorandum and I left shortly thereafter--on Saturday I did not see Kolditz, and so it was only this morning that he sent for me and that I talked to him and you can hardly imagine my surprise when he charged me "how is it that you who are an employee of Guayaquil Agencies and not of Panagra have begun to work against this Office--how can you suggest plans that are against our interest, such as the proposal to print the tariffs and passenger fares on airplanes in comparison to steamships, in the way you have done in a memo you have given to Mr. Van Law, *who has turned it over to me?*"

[fol. 797] As I already told you, I just cannot believe that this has happened--perhaps Mr. Van Law just did not understand the importance of all this and so turned over my paper to Mr. Kolditz. Well, the fat is in the fire and what I have so long feared would happen has happened--and what can I do about it?

Among the things which they told me is that they are going to write to New York complaining about you for wiring to me directly and not to the Guayaquil Agencies--the same goes for Lima.

As was to be accepted I have no friend on my side at Guayaquil, I am completely alone and I don't know what to do now. Do you think I should ask them to be transferred to another department? I would have against me the whole management, MacLean and Arrarte--the latter has a very special dislike for Panagra, although I cannot understand why. It is because of this that they loathe me, just because I don't agree with them on this.

Well, please don't speak of this to anyone and I won't say anything about it to Van Law when he comes back--all

the "staff offices" will go to meet him then; I wouldn't be surprised that this were not the last letter you get from me as an employee of Guayaquil Agencies, although I shall always be your friend.

I hope the situation isn't as serious as it seems to me now and in the assurance that you will be able to help me as well as to show me how best to carry on, I am, as always,

Your sincere friend,

(signed) G. JIMENEZ ARRARTE

[fol. 798]

GOVERNMENT'S EXHIBIT 365

PAN AMERICAN-GRACE AIRWAYS, Inc.
135 E. 42nd St. New York, N. Y.

Letter No.

Subject:

CRISTOBAL
September 19, 1936

Mr. G. Vidal
NEW YORK

Dear Vidal:

Incidentally, I do not see very much good in continuing our intensive efforts to have the Panair-Panagra schedules and other literature distributed to the Grace Liners. Muhlfeld handed a number of schedules to the purser on the SANTA ROSA. The schedules were placed in the rack used for steamship folders, so I took occasion to ask for a copy of the Panair schedule, and the assistant purser fished for one, which he found at the bottom of his desk drawer, and handed it to me. I asked him why a supply was not in the rack. At that time the purser came up and said:

"Of course, they should be in the rack", and a dozen were placed there. The next day they were gone again. In the evening I went to the Captain's cabin for cocktails, and facetiously asked him why he had given orders to remove the folders. The Captain flatly replied: "Who do you think I am working for—the steamer company or the airline". I think there is no question that the open animosity of Ed. Ford, President of the Grace Line, is responsible for this attitude on the part of the steamer personnel. I think you should not retell this conversation as I have written it to you, but it would be in order, when next you see Cogswell or Roig, to state I had written you that no airline folders were in the SANTA ROSA folder-rack. Please have a supply of folders sent to the other Grace boats as they arrive in New York, and I shall ask one of our men here to look at the rack and see whether he can find any there. I think we shall have to follow out a plan of just attrition, on the same theory of rock corrosion through the constant dripping of water. If we make a fight about it we will simply increase the opposition.

Kind regards.

J. D. MacGregor

[fol. 799].

GOVERNMENT'S EXHIBIT 366

NY 13

ALL AIR TOUR—PANAGRA.

SANTIAGO.

October 7, 1936.

Mr. G. Vidal,
NEW YORK.

I am in receipt of your JDM #15 of September 28th, and am glad to note that the matter of an all air—all expense tour is approaching a definite conclusion.

It is rather strange and is, of course, one of the handicaps with which we have to contend, that the Grace Directors themselves do not seem to be in accord concerning these tours. Possibly this arises from the fact that certain of them are more closely aligned with the Grace Line than others.

In connection with Mr. Reid's suggestion that we submit a similar tour involving steamer transportation to and from the Canal Zone, it would seem to me that we are in danger of falling between the nicher and the hither millstone, by having a multiplicity of tours rather than settling on one specific tour and pushing it in every way we possibly can.

J. D. MacGregor

JDM:EG
cc: HRH

[fol. 800]

GOVERNMENT'S EXHIBIT 367

CTC CHILE EXPLORATION CO.
ROUND TRIP DISCOUNT STEAMER AIR-PASSAGE

LIMA, April 10th, 1937.

Panagra, New York

Att. Mr. J. D. MacGregor:

We have learned that the Grace Line are granting 5% discount to employees of the Chile Exploration Co. and it is my understanding that they grant similar discounts to many other important American business firms in South America.

I believe we should also give due consideration to this as we are in many instances competing with other surface transportation and naturally we should take into account not only their tariffs, but also special discounts, such as Grace Line are granting.

We would like to have your views on the above.

Original
signed by J. E. MUHLFELD

cc HRH GV

2nd airmail

R VEC—NY

JEM/ES

[fol. 801]

GOVERNMENT EXHIBIT 368

PASSENGER TARIFFS

LIMA

July 19, 1937

MEMORANDUM

Mr. J. E. Muhlfeld,
S.A.G.O.

As the Grace Line, and apparently other steamship companies, have and are revising their passenger rates upwardly because of increased operating costs, and as our own costs are also on the increase, it may well be that this would be an opportune moment for Panagra to raise the prevailing passenger rates throughout the line.

Regardless of the merits of the above possibility, I would appreciate your ideas in writing as to what upward rate adjustment could be made if it were decided to take action at this time intended to offset the higher operating costs.

It is my idea that the present through rate between Miami and Buenos Aires could perhaps be raised from \$500. to \$600., an increase of 20%. Other tariffs could be adjusted more or less in the same proportion by bearing in mind competitive and pay load conditions over the various sections of the line.

I would appreciate your written report on the above not later than August first next.

G. Vidal

GV:KBW

cc—JDM

HRH

[fol. 802]

GOVERNMENT'S EXHIBIT 369

J.D.M. COPY

11313

PRIVATE AND CONFIDENTIAL
PASSENGER RATES

Lima, August 3rd, 1937.

Panagra, Cristobal
Panagra, Lima
Grace y Cia., Santiago
W. R. Grace & Co., La Paz
Pan American Arg. S. A., Buenos Aires

Attached please find a rate sheet showing on the lower line existing rates between Los Angeles, Brownsville, Miami and all points served by Panagra.

By return private airmail, will the *manager* of your agency advise us specifically by referring to each individual rate whether in your honest and frank opinion you believe traffic will stand the increases as shown on the top line and which represent a general 20% increase over existing tariffs.

Bear in mind that, because of general improvement in business throughout the world and increase in operating costs, other surface carriers have increased their rates on both the east and west coast of South America and that ocean freights and passenger rates throughout the world are on a general increase; that between certain sections of our line we are shutting out business, even during the seasonal low months of May, June and July; that next October we will operate DC-3 equipment probably between Buenos Aires and Cali, and extra sections between Cali and Cristobal; that traffic will probably increase approximately 28 to 30% this coming year over last year; that we still depend about 98% upon commercial travel although we are just commencing to obtain pleasure and tourist travel; and any other pertinent facts of a local or other nature which may affect traffic movement in the present and near future.

Will you please indicate in figures the highest rates which you believe the traffic will bear after taking into consideration the above factors or any additional facts affecting your own local picture.

J. E. Muhlfield

Encl.

cc: JDM, HRH, Cali, Buenaventura, Guayaquil, Talara,
Arequipa Antofagasta, Mendoza, Cordoba, Montevideo,
Div. Supt. Stgo. T—GU, R.
JEM/ES

[fol. 803]

GOVERNMENT'S EXHIBIT 370

NEW YORK COPY

Private and Confidential

PASSENGER RATES 8038

August 17th, 1937

Mr. John E. Muhlfield
S A G O
Lima

We agree thoroughly with all of the factors considered in your letter which affect the traffic and rate structure and in view of present existing conditions we too, are of the opinion that you are justified in raising the fares and are just as confident that the traffic will bear the increase.

The steamer fares we are using for comparison are minimum first class on vessels that appear to be your strongest competitors for passengers to these destinations, with the possible exception of Talara, and are quoted to the port nearest the destinations of the planes.

The proposed rates to Lima and Cristobal appear to us to be fair and reasonable and we consider them very much in order. Talara, we believe would stand considerable increase over what you suggest, say \$35.00. The rate to Buenaventura is what we think of as part fare to Cali

and other interior points of Colombia because obviously most of the travellers are enroute to these places. Now that you have the direct service to Cali we believe that the rate could safely be increased to at least \$90.00. Please, consider here not only the saving in time over other means of travel, which is tremendous, but also the difficult and sometimes uncomfortable travel encountered in the alternative routes. The Miami/New York and Santiago rates which you propose we consider in order as they are. While they are much higher proportionately over steamer fares than your rates to other points, we believe that the trip is sufficiently long and the time saved sufficiently great to warrant the higher rate. Of course, we understand that your rate affects only a minor proportion of the through rate to Miami/New York.

We trust that the foregoing observations will be of interest to you and we await news of your action.

pp PAN AMERICAN GRACE AIRWAYS INC
pp THE GUAYAQUIL AGENCIES COMPANY

A. F. MATA

cc: HRH

NY

CRISTOBAL

GOVERNMENT'S EXHIBIT 371

PAN AMERICAN-GRACE AIRWAYS, INC.

Private 8964

Subject: U. S. CURRENCY PASSENGER TARIFFS

LIMA, September 17th, 1937.

Panagra, New York

Att. Mr. J. D. MacGregor:

Panagra, New York

Att. Mr. Vidal:

(Ref. your memo of
July 19 to JEM.)

Mr. H. R. Harris,
SAGO, Lima.

At Mr. Vidal's suggestion the undersigned, with the assistance of Messrs. Zalles and Van Law, has studied our present US Currency passenger tariffs to determine whether they should be raised. The conclusion to be drawn, as will be seen from the analysis given below, is that the only section of our line which can stand a raise in tariffs is that comprised between Cristobal and Lima. All other tariffs should not be raised because of competition from other air lines and surface means of transportation:

In each group consideration has been given to (1) competitive conditions offered by other airlines and surface means of transportation, (2) carrying capacity of our schedules at present and in the near future, (3) political considerations, (4) potential volume of traffic, (5) type of traffic, business or pleasure, and (6) inherent advantages of air travel over other means of transportation, in order to arrive at the highest possible fare under the circumstances in each case or in other words to determine what the traffic will bear.

1-b) *Through Fares from Los Angeles and Brownsville:*

Steamer fares from Los Angeles to West Coast ports compared to the air tariff indicate that a raise would be in order. This raise is obtained by adding the present Western Division fares to Cristobal to the proposed higher fares from Cristobal south. A similar raise is likewise obtained in the Brownsville through fares, which would seem warranted because of the comparatively small movement involved.

[fol. 805]

2—*Northern Division Tariffs:*

It is felt that tariffs in this sector can be raised because (1) steamer rate between points in this sector are very close to present airline rates, (2) it is a bottleneck in our line since the carrying capacity is very limited and (3) there is hardly any competition from other airlines.

4—*Lima-Santiago Tariff:*

It is considered that this important fare cannot be raised because (1) it is at present 37% over the comparative steamer fare, (2) the competition of the LAW-Fancett combination, and (3) traffic over this section has not been heavy. Similarly the Arequipa-Santiago fare was not raised. The through tariffs to Santiago from all points north of Lima are set at the sum of the fares to Lima.

5—*Santiago-Buenos Aires Tariff:*

The Santiago-Buenos Aires tariff has been left at \$100. USCy, but it must be borne in mind that Air France and Sindicato Condor have already advised they are lowering this fare effective October 1, 1937, and that if they actually do so, we may have to follow suit. With few exceptions, through fares to Buenos Aires are the fares to Santiago plus the Santiago-Buenos Aires fare and will therefore reflect any reductions in the latter fare.

9—U. S. Currency Tariffs With Peru:

As Mr. A. B. Shea's recommendation that the present Panagra *soles* tariffs be raised 20% would place them above the present U. S. currency tariffs at present rates of exchange, the proposed *soles* tariffs have been converted to dollars at an exchange rate of 4:1. This would place the dollar tariffs and the local currency tariffs very close at present exchange rates and any future exchange fluctuations would merely determine whether the local currency or dollar tariffs would be effective in practice. The actual raise in U. S. currency tariffs under present conditions ranges from 6% to 8%.

[fol. 806] In view of the continuous passenger movement between Lima and Guayaquil by the combination Faucett to Talara and Panagra to Guayaquil, the fare Talara-Guayaquil was raised to \$45.-USC'y., which also brought this fare more in line with comparative steamer fares.

As noted above the Lima-Guayaquil fare was not raised in same proportion as the Lima-Cristobal fare because of this travel movement, however, it is also recommended that Aerovias be authorized to quote an inter-line fare AVP-Panagra equal to the sum of Faucett's fare to Talara plus Panagra's fare Talara-Guayaquil so as to get at least a share of this traffic for Aerovias.

Respectfully,

J. E. Muhlfeld

Original delivered to
Mr. MacGregor in Lima.
cc 2nd airmail
T - R

RZZ/ES

Encl.

[fol. 807]

GOVERNMENT'S EXHIBIT 372

PRIVATE 10146

INCREASED PASSENGER TARIFFS

NEW YORK

September 24, 1937

S A G O
LIMA

ATTENTION: Mr. J. E. Muhlfeld

Receipt is acknowledged of your Private letter 8964 which is receiving our careful attention. Its contents are also under study by Panair's Traffic Department.

Yesterday we cabled you as follows (Palmetto 58):

"YOUR LETTER 8964 PANAIR PLANNING ESTABLISH \$550 USCY MIAMI BUENOS AIRES THROUGH RATE. INCREASE OTHER RATES FROM 5% to 25% EFFECTIVE NOVEMBER 1st. FORWARD PROMPTLY ADDITIONAL RECOMMENDATIONS BASED ON FOREGOING."

You will note that Panair has also come to the conclusion that rising operating costs and the higher passenger rates being established by steamship lines justify similar action by the System.

Inasmuch as the table attached to your Private letter 8964 is based upon a through rate of \$500. between Miami and Buenos Aires and as Panair is planning to establish a \$550. rate between those two points, it is entirely possible that you may want to modify your recommendations in some respects.

As stated in our cable, Panair is planning to raise other rates from 5% to 25% leaving some unchanged where an increase does not appear justified at this time.

G. Vidal

cc JDMacGregor

GOVERNMENT'S EXHIBIT 373

No 1

Dear Mr. Iglehart:—

FARE INCREASES

As Muhlfeld is leaving on tomorrow's plane I have had a wholly inadequate time to go over traffic matters with him and most of them will have to await his return. I have, however, spent today with him mostly on rates. He will be taking these up in New York and will I think need some encouragement to get them up enough. Attached memo touches some of the high spots.

I think he is unduly concerned about getting the air rates too much over steamer rates. In making his comparisons, moreover, he takes as the steamer the minimum on the Clara etc. which I think gets him off to too low a start. He feels, however, that with the last increase Grace Line fares are already losing the line business and he is fearful of a similar result if air rates are stepped up too much. Here again I think he may be too pessimistic. I mention these things because you will be seeing him and can doubtless buck him up a bit as I have tried to do.

The whole question is, of course, a difficult one and I shall continue to work on it and let you know any further ideas which may develop.

I think it is fair to say that Muhlfeld has gone about this job in a pretty intelligent way. He has had the matter up both personally and by letter with all our people and [fol. 809] his schedule seems to be in line with their recommendations.

Very sincerely,

(sig) HAROLD J. ROSE

Lima 28 Sept 37

-1662

-Enc.

[fol. 810]

PAN AMERICAN GRACE AIRWAYS INC.

M E M O R A N D U M

[Handwritten]

Enclosed with
Letter
No. 1

INCREASE IN RATES

Mr. Muhlfeld has prepared a new rate schedule over the whole line which starts with the \$50.00 increase in the through rate Miami to Buenos Aires and makes corresponding increases to a number of way points and in way-to-way rates.

The following may be noted with reference to the proposed schedule. The changes have been made after extended studies by the Panagra Traffic Department in consultation with Grace and other agents.

1. It will be noted that there is no increase suggested in the rate from Miami to any point on the West Coast north of Santiago, although rates between Cristobal and these points are increased.
2. On the strong recommendation of W. R. Grace & Company, La Paz, no increase is made in Bolivian rates except from La Paz to points north of Lima.
3. In Peru, local currency rates on Panagra planes are increased about 20%, which works out about 6% to 8% in the dollar rates. This difference in percentage results from the fact that heretofore there has been a currency rate which, converted to dollars, worked out materially lower than the dollar rate. The new schedule does not deal in any way with Aerovias Peruanas rates.
4. The new rate of \$550. between Miami and Buenos Aires will presumably be pro-rated between Panair and Panagra on a mileage basis as heretofore.
5. Pro-ration of through rates between Brownsville and Buenos Aires will have similarly to be worked out along the same lines as the present rates. The mileage basis should not be entirely controlling here, as Panair may rea-

sonably make some concession in respect to their Central American mileage in order to equalize rates from western United States points via Brownsville with Miami rates, allowing, of course, in the Brownsville rate for the additional cost of traveling from United States West Coast points to Miami.

[fol. 811] 6. Mr. Muhlfeld will be discussing the new rates with Mr. Vidal and Mr. Chenea, and they will have to decide whether some of the increases may not be larger than indicated in order to keep pace with rising costs. In a broad way, the increases proposed seem to run between 5 and 10 percent. Changes in specific rates—except perhaps in a few special cases—over those suggested by Mr. Muhlfeld may be difficult, as this might result in upsetting the whole formula on which the rates are based. It may, however, be worth considering increasing all of his new rates by some definite percentage. In my opinion, an overall increase in present international rates of 40 percent would be very moderate in these times.

H.R.

H. J. Roig
Lima, Peru
Sept. 28, 1937.

[fol. 812]

GOVERNMENT'S EXHIBIT 374

1118

TRANSLATION

Guayaquil March 8, 1938

Mr. A. E. Sinclair
Panagra, Lima

Dear Sinclair:

I found out only today that you are again in Lima so I hasten to write you to inform you directly about something you probably already have heard: my being laid-off by this office, "for reasons of economy".

When I was advised that this was about to happen I wrote about it to G.P. Smith and told him that if I do not bring

any income to the Grace Line, I certainly do bring in good profits to Panagra, so that if the Grace Line decides to fire me on the score of economy Panagra could very well afford to take me on. This because in less than two years I have brought in about \$12,000 U.S.Cy. in a Department which, as you know, was completely unknown in this city.

I have no need to talk to you about my work, since you instructed me in it and therefore know more about it than anyone else and therefore you know also better than anyone else that in throwing me out for "economy" I am being treated with the utmost injustice.

But we also know the real reasons and that is that it has been brought about by the Grace Line, and by no one else because of the last gold shipment which they lost and which meant \$3700 U.S.Cy. for Panagra. They also know that the Central Bank plans to make many large gold shipments during the coming year and they know that if I am let out there will be nobody to handle the competition against them.

...
Your friend

G. Jimenez

Gustavo Jimenez
Casilla 320
Guayaquil, Ecuador

GOVERNMENT'S EXHIBIT 375

PAN AMERICAN GRACE AIRWAYS, INC.
35 East 42nd Street New York, N.Y.

Cable Address

LETTER NO. 9806
PRIVATE

AIR MAIL Trip 53

Subject:

UNACCOMPANIED BAGGAGE - GRACE LINE

Lima, April 4, 1938.

Panagra, New York

Att. Mr. J. D. MacGregor:

During my absence from Lima, while I was on a recent trip to Buenos Aires, all our offices on the West Coast were advised by Grace Line they would not accept unaccompanied baggage belonging to Panagra passengers as outlined in Traffic Bulletin No. 725, dated June 15, 1938.

To date we have not received reply to our letter 9633 on this subject and the purpose of this letter is to point out to you that the action taken by Grace Line will seriously affect our passenger sales.

If it were not for excess baggage we would sell a great deal more business from South America to the United States, especially where families are concerned and I consider this one of the principal obstacles with which our selling offices are confronted at the present time.

Do not know what Grace Line objective was in cancelling their agreement with Panair System, however, I wish that you would bring this matter to the attention of the proper authorities in W. R. Grace & Co. and endeavor to have them cancel their recent instructions to their West Coast offices.

I am sending a copy of this letter to Mr. Chenea as undoubtedly he will be interested in discussing this subject with you and the Grace people as well.

I do not believe it was Grace Line's intention to divert traffic from Panair System, however, I would like to know the reasons behind their cancelling their intercompany arrangement with us.

[fol. 814] I am attaching my copy of Santiago's 3107 of March 28th to Valparaiso and Mr. McPhee's (Grace Line Manager) letter 15319 of March 26th to Grace Line Inc., New York, on this subject.

cc VEC-NY VS Stgo.

JVL S T

JEM/ES

J. E. Muhlfield

[fol. 815]

GOVERNMENT'S EXHIBIT 376

Letter No. 17
H.J.R.—Trip Series

W. R. Grace & Co.
New York

New York, April 20th, 1938.

H. J. Roig Esq.,
LIMA, PERU.

Dear Harold:

...

I found Chena very appreciative of Mann's recent prompt modification of the Grace Line ruling against unaccompanied baggage, but he feels that the general run of Grace Line traffic people are unsympathetic, if not hostile, to air traffic and cited the fact that he couldn't get the Pan American Airways schedules, including Panagra, on the Grace Line steamers departing from here but that they had to be shipped on board by the Panagra office at the Canal.

...

Sincerely yours,

Robert H. Patchin

GOVERNMENT'S EXHIBIT 377

W. R. Grace & Co.
New York

No. 30

Lima, Peru,
April 27, 1938

Mr. R. H. Patchin,
W. R. Grace & Co.,
NEW YORK

Dear Bert,

Your #17.

I agree that the Miami-Kingston-Cristobal-Lima Tour is an easier selling possibility than the Chilean Tour but I think Panagra gets very little benefit out of it. The Chilean Tour is undoubtedly much harder to sell but from Panagra's standpoint, one passenger on that trip is worth several to Lima.

We have no shortage of traffic to Lima especially north of Guayaquil and, even with our somewhat larger payloads on the overland route, I think this will still be true, after taking care of Cali business. Where we are short of traffic is south of Guayaquil and especially Trans-Andean as I have pointed out in several of my recent letters. Our Trans-Andean passenger traffic is off over \$4,000 a month for the first three months of this year compared with last year. This is a real problem and if you or Chenea can work out any suggestions to help this very acute situation they will be very greatly appreciated. I am glad you are working with Daulton on a closer tie-in with Grace Line. I think you will find that Grace Line sells very little air transportation in connection with steamship com-
[fol. 817] bination or otherwise. Our Grace Line propaganda for the Chilean Lake Section, for which I do not blame them in the slightest as it is one of their selling points to get tourists to go to Chile at all, is also diverting to this route many tourists who would otherwise fly over

the Andes. Perhaps we ought to set up a counter-propaganda for the Trans-Andean trip.

No-one can expect Grace Line to sell air transportation at the expense of steamer transportation any more than Panagra or Panair would be expected to do the reverse, but there must be some points where we can work together to much advantage. To date we have somehow not succeeded in finding them. This is another point where anything you can do will be most helpful. As you say, our reduced Grace Line passenger service might fit in very nicely with this program.

I hope you will soon find a suitable assistant and get started on this whole matter of getting more traffic for Panagra in the United States. The problem is urgent and every day's delay is costing us money. While Panair's sales for carriage on Panagra are impressive, I imagine they represent tickets bought and not sold. I mean that when anyone is going to a point on Panagra on the West Coast, no doubt in part because of their general propaganda, he goes to Panair to buy his ticket but when they are interesting a tourist in a trip to South America they push the East Coast. Just a glance at the literature in any of their sales offices makes this apparent.

Yours sincerely,

H. J. Roig

[fol. 818]

GOVERNMENT'S EXHIBIT 378

Draft

7.28.41

Pan American Airways Corporation

Dear Sirs:

...

Panagra is a direct competitor of the Grace Line and has, year by year, eaten into that line's passenger business in a surprising way. Mr. Roig is a Director of the Grace Line and has seen his efforts in favor of Panagra resulting in prejudice to the Grace Line.

...

10-11-41

February, 25, 1942

Mr. James Magner, Vice President
Grace Line
10 Hanover Square
New York City

Dear Mr. Magner:

It has come to our attention that the Grace Line offices on the West Coast for some reason are not permitted to endorse the unused value of tickets to PANAGRA although we understood originally that that was perfectly permissible.

We have instructed our offices that in case it is necessary to endorse the unused value of one of our tickets to a steamship line like the Grace Line we should lift the unused portion of our ticket and draw an exchange order on the other for the unused value of our own ticket. I should think that your offices could be instructed to follow the same practice and doubtless the present situation may have arisen because of some misunderstanding or lack of definite instructions on the subject.

I would be very grateful for any comments you may have on this point since it has come to my attention in a number of instances during the past year that both the Grace Line and PANAGRA have been given a black-eye by passengers when after deciding to change their reservations they have found out that the Grace Line will not endorse tickets to PANAGRA.

With kind regards, I am,

Sincerely yours

R. C. Lounsbury
Passenger Traffic Manager

RCL/f

cc: VP & GTM-NY
SAGO Sales-Lima

[fol. 820]

GOVERNMENT'S EXHIBIT 380

260 PRIVATE

NEW YORK COPY
GOLD SHIPMENTS

LIMA, March 4, 1942.

Grace & Cia, C. A.,
Agents for Panagra,
Bogota.

Attn: Mr. H. Helbling, Mgr.

Dear Mr. Helbling:

Our Freight Representative referred to in the attached letter gathered the impression, during his recent visit to Cali, that no attempt had been made to secure for Panagra the shipments of gold which, I understand, are now going forward by steamer from Colombia to the United States. I wish, therefore, that you would give the necessary instructions to the Cali office to actively promote this business.

• • • • •

J. E. Muhlfield, GSM

Encls.

cc NY (2)

SAGO

WBurdette

JEM:ES

GOVERNMENT'S EXHIBIT 381

COMPANIS DE AVIACION PAN AMERICAN
ARGENTINA, S. A.
AGENTE DE: PAN AMERICAN-GRACE AIRWAYS,
INC. - PAN AMERICAN AIRWAYS, INC.

Avenida Roque Saenz Pena 788 - U. T. 33, Avenida 8581
BUENOS AIRES

January 12, 1943.

Mr. Geo. L. Rihl, Vice President,
Pan American Airways Inc.,
New York.

Dear Mr. Rihl:

Reference is made to our confidential letter of October 16, 1942, with which we enclosed an informal agreement between the Grace Line and our Argentine Company. We never received a reply and we assume that Grace Line must have informed you of their intention to close their representation here.

We attach hereto copy of a memorandum from Mr. H.J. Aller, Grace Line Representative, informing us of the decision to close the Grace Line Agency in Buenos Aires as of December 11, 1942, on which date Mr. Aller moved out of the office which had been set aside for their use, and turned it and the furnishings over to us in perfect condition.

• • • • •

This closes the Grace Line representation case as far as we are concerned, and we are (personally) very happy about it because we do not believe it is a good idea to have an Airline-steamship combination here. Before steamship services was suspended too many people made remarks such as, "If you don't get them one way you get them another".

We should very much appreciate being informed of the final settlement made with Grace Line, and we await your reply with interest.

With kindest personal regards,

Sincerely yours,

/s/ S. J. Roll

S. J. Roll

cc: Vice President-EE Young-NY

Senior Repr. F. Powers-Rio

SJR:ECK

P.S. We are enclosing
2 extra copies in
the event that
you wish them
for the comptrol-
ler or some other
Department.

El Sistema De Transportes Aereos Mas Grande Del Mundo

[fol. 822]

GOVERNMENT'S EXHIBIT 382

January 20, 1943

**CONFIDENTIAL MEMORANDUM FROM
MR. A. E. SINCLAIR TO MR. R. FERGUSON**

* * * * *

... Panagra employees who boarded Grace Line steamers in order to leave timetables on board were ordered off the steamers and in some cases not allowed to go on board, and any literature, even for some time thereafter, would be taken out of racks and destroyed. Mr. J. M. Van Law, now with PAA, was by then Traffic Manager and can probably add a great deal of information as he was for many years thereafter the head of the Panagra Traffic Department. I am sure it was at a later period, although I might just as well mention it here, that the Grace management in Peru periodically refused to authorize the purchase of instruments, spare parts or other items considered necessary by the technical personnel, creating considerable excitement from time to time until this situation was eventually placed on a normal footing as Captain Harris gained more and

more direct power. As an example, I recall the refusal of Grace to authorize the purchase of Kollsman altimeters for the use at the various airports, since this was considered an exorbitant and unnecessary expense, the argument then being that these instruments in the opinion of the Grace executive responsible were for use aboard aircraft and not on the ground.

• • • • •

I made frequent inspection and business solicitation trips over the territory encharged to me. I cannot say that in Cali I received anything but extreme cooperation from the Grace representatives. In Ecuador, however, the situation was altogether different, and my every move was watched with suspicion and my efforts were frequently checkmated. I finally arranged for a meeting of the Manager in Ecuador and his local executives in order to get all our cards on the table.

At that time my main efforts were being directed towards the securement of air freight. The Manager of the Guayaquil Agencies Company and his assistants contended that I must abstain from soliciting effective or potential Grace Line cargo and confine my efforts to soliciting such items as might be "Parcel Post" material. The manager pointed out to me that the commissions earned by his organization in Ecuador (which is 100% Grace-owned) from Grace Line business were enormously more important to him compared to anything he got out of Panagra, with the further consideration that any profits that might be earned on Grace Line business accrued entirely to Grace interests, whereas Grace only obtained 50% of any profits on Panagra business. The discussions were long, to some extent heated—not result an impasse.

G-382

[fol. 823] Naturally my job was to secure all the business I could for Panagra and I therefore continued in my efforts. I got wind of gold shipments being made by the Bank of Ecuador and went to see the Manager of the Bank in Guayaquil, who informed me that the matter would have to be discussed with the Director General in Quito. I therefore immediately proceeded to Quito. By a lucky fluke, the wife

of the Director General of the Bank of Ecuador, the man I had to see, was a very dear friend of my mother-in-law. I had never met her or her husband, but using this family connection and armed with "Whitman Sampler" candies and flowers I called at their house. I received a very warm reception, was invited to dinner one day, to a movie the next—and in the midst of all this arranged for an appointment at the Bank with the Director General and some other bank executives whom he called to hear my story. With this lucky break I made the sale and it was arranged that the next shipment of gold would go—and did go—via Panagra.

On my return to Guayaquil I came in for bitter remarks on the part of the Grace manager and his assistants, who had been informed of my activities by their Quito representative, and I know that they did not cease their efforts to secure this and other business that I solicited for the Grace Line. It is nearly five years since I left Panagra and, in the meantime, I understand and believe that the above conditions have radically changed and that as a matter of policy dictated by New York Grace Headquarters, all offices of Grace now watch without bias or even preferentially the interests of Panagra, but obviously if at any time a greater Grace interest were to be adversely thereby affected it is only natural to suppose that the major interest would gain supremacy.

• • • • •

I hope the above note will be of some use.

Kindest regards.

A. E. SINCLAIR

4907

SOLICITATION.

Limatambo
May 13th, 1949.W. R. Grace & Co.
Agents for Panagra
Lima, Peru.

Attention: Mr. Carlos Velarde C.

One of our employees called at my office this morning in connection with the attached "tip slip" which was submitted to your office for the current Panagra Employees Sales Contest. Although Mr. Koehler, the prospective client and his family have indicated a preference for steamer travel, nevertheless we feel that every effort should be made to follow up and sell this good lead on the advantages of air travel.

. . .

Original Signed By
G.G. MASON
George G. Mason

GGM:bvv.

cc: JTShannon—NYC
CdeGroot—NYC
ABShea—NYC
JWWalker—LBO
GBBourne—LBO

[fol. 825]

GOVERNMENT'S EXHIBIT 384

Mr. Jolin T. Shannon
Vice President

General Sales Manager
Sales
New York

PANAGRA
New York
July 7, 1949
SALES

During recent months we have been concerned about sales for Latin America as a whole and we have endeavored to determine to our own satisfaction the reasons contributing to the low figures mentioned above. In our opinion the following factors must be taken into consideration:

1. Air and surface competition, in particular Braniff.

John E. Muhlfeld

cc: Vice President, T & S., NYC.

Enclosures

jem md

[fol. 826]

GOVERNMENT'S EXHIBIT 385

PALMETTO 6 to LIMA (Palmetto) July 26, 1949
750pm

1 6 your \$2

gold bullion shipments—confirm not in accordance with previous advice from miami or lounsbury transmittal C44 to CAB, etc.

2 suggest that you

3 leave

4 (in) abeyance

5 our 96

6 55/78

for your information into resolution requires application bullion surcharge only from NY boston montreal to area two and honolulu to eyes three, our tariff should be interpreted this sense:

7 as well as
8 our letter 6198
9 of
10 july 21st

application of gold bullion rate:

11 sentence
12 we prefer
13 have you
14 contact
15 braniff
16 representatives
17 and
18 attempt
19 persuade
20 them
21 interpret
22 IATA
23 resolution
24 so as to
25 require
26 bullion
27 charge
28 to and from
29 point of origin
30 and
31 destination

[fol. 827] 32 in south america

33 sentence
34 we are inclined (to)
35 doubt
36 business
37 would be
38 lost
39 to

40 steamers
 41 but we
 42 expect you (to)
 43 watch
 44 developments
 45 carefully
 46 and
 47 let us know
 48 if any
 49 diversion
 50 from
 51 air
 52 to
 53 steamers
 54 actually
 55 takes place
 56 because of
 57 extra charges

MR. SHEA
 MR. CAMPBELL
 MR. VIDAL

MR. ROIG
 MR. HAYES
 MR. GEHLERT
 MR. COGSWELL
 \$15.58

[fol. 828]

GOVERNMENT'S EXHIBIT 386

8/26/49

TRAFFIC AND SALES—CHILE
 (YOUR PALMETTO 10 TO LIMA)

SANTIAGO,

August 21st, 1949.

Pan American-Grace Airways, Inc.,
 NEW YORK

Attn.: Mr. J. T. Shannon.

Reference is made to the attached copies of our Palmettos
 61, 62, 63 and yours 79 and 82, in connection with Chilean
 traffic and sales matters.

Our company restrictions effective August 5th, 1949 against the acceptance of Chilean pesos for round trip passages between Santiago and New York sold to Chilean nationals and bona fide residents was sharply at a variance with the policy of other transportation agencies in Chile. As explained in our cables all of the steamship carriers and air lines serving Chile are offering round trip tickets in pesos. Panagra's demand of dollars to cover the return portion of a ticket to the United States forced prospective passengers to expend double the amount of pesos in order to secure dollars at the present street rate of exchange which is \$83.— A comparison of the following fares indicates how we priced ourselves out of the Chilean market until this policy was reversed upon receipt of your Palmetto 82 on August 19th.

[fol. 829] It is most unfortunate that the Grace Line was quoted—more attractive rates than Panagra by accepting not only round trip passages in Chilean pesos but also pasajes de llamada. We were losing traffic every day to the Grace Line, especially return business, booking by steamer to take advantage of the facility of purchasing the passage in pesos. As requested in our Palmetto 63 it is urged that a decision is reached as quickly as possible with respect to our position on pasajes de llamada, which the Grace Line is currently offering to the public. This feature now gives them an important sales advantage and we feel that both carriers should maintain the same policy towards pasajes de llamada.

Yours very truly,

G. G. Mason

cc: ABShea—NYC
 DCampbell—NYC
 GVidal—NYC
 TJKirkland—NYC
 CdeGroot—NYC
 JWWalker—LBO
 JTKirby—NYC
 WKoch—SCL
 CHBrunson—SCL
 GBBourne—Bue

GGM/bm.—

[fol. 830]

GOVERNMENT'S EXHIBIT 387

Pan American Grace Airways, Inc.
135 East 42nd Street, New York 17, NY

Cable
"Panagra"

January 26, 1951

MEMORANDUM TO MR. J. W. STARBUCK, JR.

Reference our discussion with Mr. Stevens of the Dickie-Raymond Co. of a supplementary survey of the Grace Log circulation list. Mr. Stevens makes a suggestion that the Grace Line run off their list on plain 3"x5" cards of salmon color so that Dickie-Raymond in Boston may check for duplication between the Log names and those already on Panagra's list. By keeping the cards in salmon, all unduplicated names can be put directly into the file without retyping, and the color will be distinctive from any other colors presently used in the list and will identify the names as having come from the Grace Line.

Believe you should discuss this matter directly with Grace Line officials before releasing the list or cards on Panagra to Dickie-Raymond. There may be some objection within the Grace Line to our use of their list.

We at Panagra should have a clear and detailed idea of what the Grace Line list comprises, i.e. past passengers, shippers, exporters, wealthy persons, and so forth, before we embark upon any promotion. And the Grace Line should clearly understand that we intend to be competitive for travel business that may be developed out of this list. However, since it is all in the family, there may be no objections.

G. F. Sorgatz, Jr.

G. F. Sorgatz, Jr.

GFS:aa

cc: JTShannon

HLC:Clark

EG:Bern

[fol. 831]

GOVERNMENT'S EXHIBIT 388

May 11, 1951

Mr. John D. J. Moore
Assistant Vice-President
W. R. Grace and Company
914 Fifteenth Street, N. W.
Washington, D. C.

Dear John:

In view of the above, we would like to accept your kind offer of assistance to the extent of specific advice as to the several Embassies in which you have noted a plentiful supply of Braniff pamphlets, etc. Speaking of assistance, one of your W. R. Grace & Co. employees recently solicited our most lucrative Panagra account with the stated objective of diverting passengers from Panagra to Grace Line ships. We certainly meet ourselves coming around the block, don't we?

With kind personal regards,

Sincerely,

PAN AMERICAN WORLD AIRWAYS

Tolbert A. Rice
District Manager

TAR:MGR

[fol. 832]

GOVERNMENT'S EXHIBIT 389

Pending

November 7, 1951

NOTE TO R.G.L.

On May 17th the Grace Line asked our approval of an agreement on "Round South America" tours at less than the normal one-way fares which the Grace Line had con-

cluded with the Delta Line and which named Pan American and its affiliates as connecting carriers.

Paragraph 4 of this agreement states, "Passengers proceeding independently between Valparaiso and Buenos Aires shall have the privilege of purchasing locally transportation for that portion of their tour, in which event no other connecting carrier need be employed."

Based on this provision, train transportation is being sold between Buenos Aires and Santiago and its effect creates an open jaw or RSA trips contrary to our tariff provisions. This also gives Grace and Delta the sales advantage of offering this train transportation while Pan American and PANAGRA cannot.

H. A. B.

[fol. 833]

GOVERNMENT'S EXHIBIT 390

P. G. Series = 540

New York

November 16, 1951

Fausto Moscoso, Esq.

GUAYAQUIL, ECUADOR

Dear Fausto,

PANAGRA GRACE LINE PUBLICITY

I refer to the attached leaflet, which is representative of the type of publicity you are at present putting out for Panagra and Grace Line and which I consider to be most effective. The point has been raised here that the fact that Panagra and Grace Line, which to a certain extent are competitive services, are advertised together in a single leaflet might give rise to criticism or misinterpretation. I feel that there are some grounds for this thinking and consequently consider that in the future any leaflet or publicity material of the type attached to this letter should not advertise both Panagra and Grace Line but should only mention

one or other of these services. Although this will possibly signify a slight increase in the cost of your local publicity, the cost of such leaflets is not very high and I shall appreciate it if you will proceed accordingly in the future.

Yours very truly,

Original)

Signed)

P. Gjertsen

[fol. 834]

GOVERNMENT'S EXHIBIT 391

November 19, 1951

Note to Assistant Vice President Traffic Sales—
C. W. Moore

4) With respect to items 8 and 9 of Mr. Friendly's memorandum, a few days ago Mr. Rice was asked by Mr. Shannon, Panagra, and Mr. John Moore, Assistant Vice President, Grace, Washington, D. C., to furnish Grace the complete lists of the names of all passengers booked on Panagra by Washington. The alleged purpose was for Grace to determine which of these passengers would be considered VIP's so that Grace employees in Washington could extend special courtesies. Messrs. Shannon and Moore explained to Rice that our office in Washington is not capable of determining those people who are VIP's as far as the Grace Company is concerned. Rice replied to the effect that it would be a hardship to obtain this information for Grace and that he could not authorize it locally. Mr. Shannon intends to take this up with Mr. Lipscomb.

Howard Williard advises that W. R. Grace, New York, has a direct teletype line to the Panagra-Traffic Office, Miami. He also informs us that Messrs. Eben Baker and Robert Golden were hired by W. R. Grace and assigned to the Panagra Traffic Office, Miami. An investigation should be made with respect to whose payroll they are now on as they

are referred to as being with Panagra's Traffic Office, Miami.

The Grace activities with regard to solicitation of the UN and the Pan American Olympic Games are fully outlined in the General Sales Manager's report. In addition Mr. Nagel submits the solicitation of the Hochschild charter as an example of Grace's activities in New York. The attached memorandum dated November 12, signed by Mr. Sylvester of Panagra, outlines Grace's interest in this charter.

Finally, as an indication of the problem confronting us in Washington, attached are two letters, both signed by James P. Freeborn. One dated March 16, 1951, is on Grace Lines' stationery. The other, dated April 11 is on W. R. Grace [fol. 835] stationery. This raises a competitive problem in view of the fact that any information concerning our passengers submitted to W. R. Grace in Washington becomes available to our competitor, Grace Line, as long as the same individuals represent both companies.

If I can be of further assistance, please advise.

WHR

[fol. 836]

GOVERNMENT'S EXHIBIT 392

Division Traffic/Sales Manager

Actg. Dist. Traf/Sales Mgr.

LAD

LAD

Miami

Colon, R. P.

May 27, 1952.

PEPSI-COLA COMPANY—COLON FREE ZONE

The foregoing represents an actual annual tonnage from this firm of 2,001,000 pounds. However, the future potential cannot be appraised as Pepsi-Cola is undergoing an expansion program in Latin America which, if exchange

and regulations permit, could easily double their exports to some of the countries in the Western Hemisphere. Example of this is the probability of six new bottling plants in Colombia, which are awaiting dollar exchange permits in order to establish the bottlers in business.

. . .

It is worth while noting that the actual Clipper Cargo rates to the countries having the largest volume of these imports are substantially high when compared to steamship rates. There is a probability of a need to establish a commodity rate with a high minimum weight to offset or lower this differential in order to gain over the largest portion of this volume. However, we should wait until our Sales Representative surveys are completed in order to determine if there is such need for a reduction of rate to apply to soft drink concentrates or not. For this information, steamship rates Ex Colon to Central American ports is \$6.41 per unit and to La Guaira is \$5.78 per unit.

As the cost of insurance is absorbed by the shipper, Mr. Romero has promised to push Clipper Cargo service as much as possible, as this item represents a saving to his Company of 35 to 43 cents per each \$100.00, the average cost of maritime insurance being 50 cents per \$100.00 compared to ours of 7 cents to 15 cents per \$100.00.

[fol. 837] By copy of this memorandum to Cargo Traffic Supt., we are requesting his investigation on the acceptability for carriage of the phosphoric non-anhydrous acid used in the preparation of soft drink products and to advise us as soon as possible in order to pass this information on to Mr. Romero.

This office will continue our contact with this firm and will advise the corresponding offices of any new developments.

J. A. Soto

No. 146

cc: Cargo Traffic Supt.—LAD—Miami
 Cargo Sales Supt.—Miami
 Senior Representative—Panama City

C O P Y

[fol. 838]

GOVERNMENT'S EXHIBIT 393

Interline—
Braniff

September 4, 1952

Mr. Louis A. Person
Traffic Manager
Braniff International Airways
Love Field
Dallas, Texas

Vice President
Rec'd
New York
Sept 4 1952
Traffic & Sales
(seal)

Dear Lou:

I have your joint letter of August 28th regarding the arrangements for handling items of passengers' baggage to which the luxury tax would apply. Since the law permits passengers to avoid payment of this tax by acceptance of these items on board vessels or aircraft departing from the United States and since we have found it necessary to be competitive with steamship services in this respect we have had such arrangements in existence for many years. While the number of people who take advantage of it are not very numerous we would not wish to give it up because of the competitive steamship situation.

Sincerely yours,

R. C. Lounsbury
General Traffic Manager

rel/c

bcc: Willis G. Lipscomb, PAA—NYC

GOVERNMENT'S EXHIBIT 394

February 11, 1953

Dix. Traffic/Sales Mgr.

Traffic/Sales Manager

Latin American

Pan American Argentina, S.A.

MIAMI

BUENOS AIRES

MONTHLY SALES REPORT—BUENOS AIRES,
JANUARY 1953

COMPETITION

Actually, the most important competition we have here is not Braniff or Aerovias or Aerolineas but the steamships. The "Augustus" and "Julio Cesare" of the Italian Line, and the "Andes" of the Royal Mail Line and the "Luis Lumière" of the French Line all offer excellent second-class accommodations at prices that are so much lower than those of the airlines that most travellers to Europe go by sea. The situation is less acute on the run north because Moore-McCormack is more expensive than the airlines and Delta only a bit cheaper but every month Flota Mercante, the state-owned steamship line of Argentina, is taking a bigger number of American passengers at least one way to or from the United States.

To meet this competition I am trying to work out an agreement with Flota Mercante of the sale type as we now have with the American steamship line. I have also looked into the problem of a similar air-sea agreement with at least one of the European Steamship lines, please refer to my memo to General Traffic Manager, New York, of July 25, 1952.

More important, I am analyzing at the moment the comparative costs to American companies of air versus sea transportation for their personnel. Roughly, the idea is this. An American company gives an employee a Stateside vacation once every three years. The vacation begins when the employee reaches the States. That is to say, the

five to six weeks spent on the sea coming and going is additional vacation time which the company accepts by reason of the fact that it does not insist that the employee travel by air. Now if it can be shown that the cost to a [fol. 840] company will be less to send an employee and his family home every two years by air than once every three years by sea, say over a six-year period, then this home leave traffic will be ours.

• • •
LOCAL BUSINESS AND ECONOMIC TRENDS

• • •
Eric F. Plimpton

cc: VP Traffic & Sales—NY
General Sales Mgr.—NY
Sales/Adv. Mgr.—Mia
Sales Analyst—NY
Div. Sales Analyst—Mia
General Mgr.—Bue
Treasurer—Bue

[fol. 841].

GOVERNMENT'S EXHIBIT 895

valverde 56 to VALVERDE SANTIAGO) July 23rd 1935
1220 pm

- 1 64: re
- 2 panair
- 3 party
- 4 due at yours on the 31st
i.e. friday July 31st;
- 5 think it important
- 6 that
- 7 party be
- 8 very well
- 9 attended
- 10 that
- 11 thach
- 12 get
- 13 clear

14 idea
15 character
16 and
17 scope of
18 service-s
19 rendered
20 panagra
21 by W. H. Grace and Co.
22 and that
23 Crowley
24 and
25 newspaper men
26 get
27 full
28 picture
29 grace line
30 as well as
31 panagra
32 and see
33 santa lucia

[fol. 847]

GOVERNMENT'S EXHIBIT 400

April 18, 1929

MEMORANDUM FOR: MR. PATCHEN
MR. COGSWELL

I looked over Mr. MacGregor's undated memorandum.

. . .

CRISTOBAL OFFICE

The way that he has this laid out makes it the head office rather than New York, and I think it is a mistake. My ideas is that the operation should be in three distinct units and that, in all matters except the actual operation of the ships, these three units should report direct to New York. The only way in which New York can keep any grip or control on that business is to have all the units lined up here; to have accounts kept here; and, to have control

of expenditure, etc. all dominated entirely from New York. Sufficient copies should be sent to the Operating Vice-President in Cristobal to enable him to do his work intelligently.

The matter of handling accounts ought to be worked out carefully, and my feeling is that the accounts of the three units ought to be handled in our Coast office and that all cash disbursements should be made through our Cashier's Departments. I think the practical way for doing this is for us to have a special employee to handle this work in our Coast offices, and that this employee should be a regular part of our staff and entirely controlled by our management. I think that one man in our office in Cristobal, one in Lima and one in Santiago, with possibly one in [fol. 848] Guayaquil, should be able to attend to all of this work in an entirely satisfactory way. I don't think that the Pan American-Grace Airways needs to have any independent employees in any of these places, except pilots and mechanics, in other words, men who have to do with the actual operation of the planes. This plan means minimum expenditure and maximum control.

I should therefore have answered Redshaw in that sense and told him that he was to delegate a man of our own staff to handle this work, and that this man should be our employee, rather than have cabled in the sense that you did.

I think it most important to get this matter of handling of accounting control, of cash and clerical work into the shape that I have indicated and to lay down a definite policy with reference to it at the start.

Confidential

No. 175

June 8th, 1929

Mr. J. H. Parmerton,
Corperacion Marifima Colombiana,
Buenaventura, Colombia.

Dear Parmerton:

As Buenaventura is a port in which aeroplanes of the Pan American Grace Airways are going to land and as you are going to look after the business of this Company in Buenaventura, I wish to advise you that our theory is, that this business should be developed in the same way as we have developed all of our businesses, namely, that we should make very careful estimates before we go ahead with anything; that we should work on a budget of expenditure as well as on a very carefully estimated budget of income; that we should watch every item of expenditure with the greatest care, and that we should follow a policy of the strictest conservatism that is compatible with a sound and enterprising development.

As far as your territory is concerned, we look to you to watch this business carefully and guide it along a policy of conservatism and profitable administration. We want your ideas continually and quite apart from the regular official correspondence that is carried on with your office and the head office of the Pan American Grace Airways here. We will want your personal views on all subjects of importance to guide us in generally directing the course of this enterprise.

There is a tendency on the part of most aviation developments in this country to go ahead very rapidly with extensions and in many cases to lose sight of the importance of measuring expenditure and of making the business pay from day to day. We want to avoid any tendency in this direction on the part of the Pan American Grace Airways, and we rely upon you in a tactful way to guide and gen-

erally direct the activities in your territory on the lines of a sound businesslike policy.

Mr. MacGregor with Mr. Harris and Mr. Jacob, and Mr. Vidal assisting him, have the direct responsibility for the [fol. 850] administration of this business, and in exercising any influence that we will want exercised, it will obviously have to be done in such a way that we do not relieve these men of the responsibility of handling this business and making a success of it. Nevertheless we must not lose sight of the fact that we own 50% of the shares of the company; furthermore, that we have a knowledge of South American enterprises and must gradually acquire a knowledge of the air business in South America, and that we must avail ourselves of our knowledge of local conditions and our experience in business management in order that this whole enterprise is well managed and profitably administrated from day to day.

Consider this letter strictly confidential and for yourself and for your guidance in everything pertaining to the above company.

Yours very truly,

ZALLES

[fol. 851]

GOVERNMENT'S EXHIBIT 402

New York, January 30, 1930

L. Valverde, Esq.,
c/o W. R. Grace & Co.
Valparaiso, Chile

Dear Valverde:

The outstanding features of the Grace agency agreement is, of course, that it places the whole growth and development of the Airways business in the hands of the Grace Houses. It is nothing like an ordinary steamship agency where the home office at one end of the line at least is providing traffic. Under this contract Airways will have no traffic organization at all outside of that which this agency agreement provides but the whole affair will be in the

agent's jurisdiction and we must look to them to originate our entire movement. This somewhat anomalous situation is only possible because of our stockholdership in Airways and the position of our Coast Houses is, therefore, really that of principals rather than agents.

Sincerely,

H. J. R.

Encs.

[fol. 852]

GOVERNMENT'S EXHIBIT 403

COPY OF HANDWRITTEN LETTER

DELRAY, FLA. March 7, 1930

Dear Roig,

I have your letter of the fourth. The basic difficulty that I see in letting Trippé take over the administration of Panagrace is that he will be President of a 100% company and of a 50% company and no human can resist the tendency to pass the peaches to one and the lemons to the other. There is graphic evidence in his blocking Panagrace from getting the logical and necessary increase in service because it does not suit their East Coast programme. I fear that Trippé will think in terms of Pan Am. and will run Panagrace in these terms and that it will become impossible to get a square deal from day to day. If however you feel that you as Chairman can overcome that difficulty to the extent of getting a fair deal, then I think the plan may be feasible. The decision turns on the question as to whether as Chairman you feel that you can dominate the situation to the extent of protecting our interest against unfair or incompetent management. If so then I am ready to accept the plan. If not, then the plan means capitulating to Trippé who may be managing Pan Am. successfully altho reports until very recently were to the contrary; who knows nothing of S.A. conditions and who in his dual capacity might seriously prejudice our interest particularly if they decided they were going to buy us out. Now I am emphasizing the [fol. 853] dangers and difficulties because they are serious and we must face them squarely. Nevertheless I believe

that you can control Trippe to the extent that I indicate and am sure that you can do so if you can spare the time. It will be necessary that you go to S.A. promptly and repeat the trip frequently so that you will get to know the business thoroughly and in short will very soon get to know more about it than Trippe does. You should lay your plans so that not only will you gradually become expert in this business but that you will build up in South America Grace men who will gradually become dominating influences in the business. I believe in the business and think it may become one of great importance to us. To make it so, we must concentrate on it until we thoroughly master it ourselves; and as in all business, the partner who is most competent is the one who will effectively run it. I am not sure that it is wise to do away with the New York Office as I feel we should hold to the idea of an independent life. (I am not sure however how important this is as the business will be run in South America).

If you decide to carry out the plan you will of course have a very frank talk to Trippe and Hoyt and make clear the delicacy of the position Trippe will occupy and the necessity that Trippe in handling and discussing Panagrass matters should do so independently of Pan Am. interests. As President of Panagrass he must be working in their interest and do so honestly.

[fol. 854] The fees you fix for W.R.G. & Co. agencies appear to be very moderate. I am not sure that you have figured enough overhead provided our head men are to give the attention they must give to the success of the enterprise. You will find that our overhead runs about 100% of departmental salaries. If you figure less than this I think we will be out of pocket.

I hope you are fine.

Yours,

IGLEHART

I appreciate how much worry you have had over this matter and am confident that you will work out a solution on the lines on which you are thinking.

1054

[fol. 855]

GOVERNMENT'S EXHIBIT 404

PAN AMERICAN GRACE AIRWAYS, INC.
122 EAST 42ND STREET, NEW YORK CITY

H.R.H. No.

CABLE ADDRESS
ALL OFFICES
"PANAGRA"

LIMA, PERU
9th April 1930

Pan American Grace Airways Inc.
NEW YORK.

Dear Sirs,

This will acknowledge your letter H.R.H. 294 of March 30th.

It is my impression that no propaganda with regard to air travel is being carried out by the Panama Agencies in either Cristobal or Balboa, and this has been our experience in general in most of the large Grace offices. They are perfectly willing to sell passages on planes if the customer goes in and asks but do very little to increase sales.

Yours very truly,

H. R. Harris

Copy to:

Mr. J. D. McGregor.

" R. F. Hoyt.

" J. T. Trippe.

" R. H. Patchin.

" W. F. Cogswell.

[fol. 856]

GOVERNMENT'S EXHIBIT 405

W. R. Grace & Co. will be responsible for the following local functions:

- 1) Agencies and representations
- 2) Negotiations
- 3) Traffic, including mail, cargo and passengers (When Carried)
- 4) Advertising
 - 1) Purchases, including checking of presupuestos
- 6) Accounts, including checking and payment of all income and expenditures
- 7) Legal representation, including—
 - a) Registration of Pan American Grace Airways Inc. to do business in Chile, if necessary
 - b) Determination of Governmental fees and taxes
- 8) Employment of personnel except operations personnel.
- 9) Securing of requisite office space, furniture and office personnel where necessary.
- 10) Cables, telegrams and telephones.
- 11) Distributing all PAN AMERICAN GRACE AIRWAYS INC correspondence and checking to make sure that all correspondence is promptly answered with copies to all concerned.
- 12) All local insurance.
- 13) Movement of aircraft, except test flights.

The necessary personnel will, for the carrying out of these functions, be employed by W. R. Grace & Co. for the account of PAN AMERICAN GRACE AIRWAYS, INC. Such employees will be under the direct supervision and control of a Grace representative having Power of Attorney for PAN AMERICAN GRACE AIRWAYS INC. Up to 50% of this representative's salary will be payable by PAN AMERICAN GRACE AIRWAYS, INC. to W. R. Grace & Co. for his work in charge of the various functions allocated to W. R. Grace & Co.

PAN AMERICAN GRACE AIRWAYS INC WILL be responsible for:

- 1) Operation and maintenance of aircraft and motors.
- 2) Spare parts and supplies
- 3) Operation and maintenance of PAN AMERICAN GRACE AIRWAYS INC automobiles
- 4) Care of hangars, both of PAN AMERICAN GRACE AIRWAYS INC and/or rented ones.
- 5) Efficiency of aircraft movement
- 6) Employment of operating personnel
- 7) Efficiency of operating personnel
- [fol. 857] 8) Appearance and conduct of pilots and flight mechanics while on duty
- 9) Proper maintenance of all operations reports and record and prompt forwarding of necessary operations reports to all concerned
- 10) PAN AMERICAN GRACE AIRWAYS INC personnel will at all times maintain complete cooperation with W. R. Grace & Co. employees or representatives engaged in PAN AMERICAN GRACE AIRWAYS INC work.

It will be the duty of both PAN AMERICAN GRACE AIRWAYS INC employees and W. R. Grace & Co. employees to report in writing to PAN AMERICAN GRACE AIRWAYS INC, New York, with copies to PANAIR, New York, W. R. Grace & Co., New York and the undersigned in Lima, a weekly summary of the general situation as regards PAN AMERICAN GRACE AIRWAYS INC interests, activities and plans. There will also be reported any points of discussion or differences of opinion on questions of policy on any other questions that may arise in the minds of any one group with regard to the functioning of the other group. Since neither organization has control of the other, the best way to further the interests of PAN AMERICAN GRACE AIRWAYS INC, with the minimum friction is to attempt to visualize the problem presented by the general situation (including international as well as local problems) and to cooperate in every way possible in order that the PAN AMERICAN GRACE AIRWAYS INC

may become a self-supporting organization based upon a solid economic foundation.

PAN AMERICAN-GRACE AIRWAYS, INC

H. R. Harris
Vice President.

[fol. 858]

GOVERNMENT'S EXHIBIT 406

Copy via Air Mail
Original by steamer

New York, October 10, 1930

Dear Roig,

I lunched yesterday with Rentschler of the City Bank, and among other things he brought up the subject of Aviation. He said that his brother had been talking to him about it and that they felt rather strongly that the Pan American Airways was not being well managed. He felt that they had very valuable contracts and that if the company were managed economically and in a close business-like way it should be on a profitable basis.

He asked my opinion of Trippe. I told him that I thought Trippe had great ability as a negotiator and a promoter, but that he had little business experience and furthermore that he was so much occupied with his negotiations that he had little time for administering the business. Rentschler said that they had formed exactly the same impression and that he felt some steps would be taken shortly to put the administration of that company on a business basis. I told him that you were now in South America working over the details of administration of the Pan American-Grace Airways, and explained to him just the policy that we were following, and made clear to him that we were really running that company and that it was now on a paying basis.

I hope you are well, and with kind regards, I am,

Yours very truly,

[fol. 860]

GOVERNMENT'S EXHIBIT 408

Lima, November 27th, 1930.

Messrs. W. R. Grace & Co.,
LIMA.

Dear Sirs,

We regret to have to make a complaint against the service which we have received from the Furniture Department of your organization.

Shortly after lunch on November 26th, we approached this department with the request that they furnish us with two letter size filing cabinets. We were informed that while it was certain that they had one of these cabinets in stock in the deposit at Chacra Colorado, it was doubtful whether there were two available. We were informed by telephone about 3.30 p.m. that we could have two cabinets as requested and that they would both be delivered to our office before 5.30 p.m. We also understood that the price would be the same as we had previously paid for Art Metal steel filing cabinets, viz. \$90.00 u.s.g. each (or S/.295.00 approx. at the present rate of exchange).

About 5.00 p.m. these two cabinets were delivered and we were rather surprised to note that one of them was an "Armor" cabinet, manufactured by the Corry Jamestown Mfg. Corp., smaller and of much inferior structure to the Art Metal cabinets which we have been using previously and which have proved themselves to be very satisfactory. [fol. 861] The other cabinet which was delivered against our order from outside appearances seems to be equal in quality to the Art Metal, although we have been unable to inspect the interior due to the key not fitting the lock. This cabinet is made by the Yawman & Erbe Mfg. Co. and is stamped "Agente Exclusivo Lima—Const. H. Zollner."

In spite of the fact that the Furniture Department have always supplied us with Art Metal cabinets in the past and also in spite of the exclusive Lima Agent's name ap-

pearing on one of the cabinets just delivered to us, we were informed that these two cabinets were delivered from the Furniture Department stock and that the price would be the same as previously charged (viz. \$90.00). We need hardly state that had the Furniture Department informed us in the first place that they had no cabinets in stock but could purchase same for us locally from one of their friends, charging us a reasonable price, we would no doubt have accepted their offer. However, we can under no circumstances agree to pay \$90.00 u.s.g. for a filing cabinet which we could have purchased from Zollner direct for less than \$220.00. On the basis of Zollner's price we estimate that the value of the other cabinet delivered to us to be not more than \$160.00 and this cabinet is also being charged to us at \$90.00 u.s.g. We might mention that this cabinet is entirely unsuitable for our needs and would not be acceptable to us at any price.

It is therefore apparent that the Furniture Department have decided to use us as a means of making an exorbitant [fol. 862] profit on a simple local purchase and under the circumstances we would prefer to cancel our order for these two cabinets and purchase same ourselves on the local market. Please therefore advise your furniture department to collect the two cabinets at their earliest convenience.

We might also mention that after considerable delay in fulfilling our order for office furniture, the glass tops for the tables were first delivered all out to the wrong size and it has been necessary to make new tops for these tables to fit the glasses. Said table tops have been delivered to date.

One of the office chairs was so well constructed that it after one week's continued use. Kindly have same replaced immediately.

Yours very truly

Thommen

[fol. 863]

GOVERNMENT'S EXHIBIT 409

GRACE Y CIA. (CHILE) S. A.

SANTIAGO CONCEPCION VALDIVIA

Private Airmail No. 10145	Airmail	7/29/31
	arrives	8/4/31.
	"S. Barbara"	8/7/31.
	arrives	8/26/31

SANTIAGO, July 24, 1931.

Messrs. W. R. Grace & Co.,

NEW YORK.

Attention Mr. H. J. Roig

Dear Sirs,

Panagra Representative Ovalle

Some misunderstanding must have arisen in the mind of Mr. Harris with regard to the Grace representative attending to Panagra planes at Ovalle, to judge from copy of H.R.H. No. 717 addressed to Panagra New York which we enclose. In regard to this matter we also attach copies of our private letter No. 9548 to Grace Valparaiso, of our private letter to Mr. Harris No. 339 and of private letter No. 810 to Panagra, New York, all of which are self explanatory and calculated to remove from Panagra's mind any doubts with regard to Grace representatives attending to their planes in Chile.

Just recently we have noticed a certain spirit prevailing once more inclining towards the idea of registering the Panagra in Chile, with the aim, so far as we can judge, of establishing separate offices throughout Chile. From where this idea has originated we cannot tell, but, in conversation with pilots coming from the North, the subscriber has gathered this.

We have no hesitation in saying we consider the Grace organization more competent and better equipped to attend to the interest and work of the Panagra than any separate entity that might be contemplated or established.

as apart from the saving in expense alone there are hundreds of other advantages accruing to them. We feel confident that the enclosed letters will meet with your full approval, and wish to state once more that we have an [fol. 864] extraordinary interest in the welfare and working of Panagra in Chile and do not believe that their business is conducted more efficiently in any other Division.

Yours very truly,

p.p. Grace y Cia. (Chile) S.A.

JJH/FL.
encs. by airmail.

[fol. 865]

GOVERNMENT'S EXHIBIT 410

NEW YORK,
May 6, 1932.

Mr. H. R. Harris,
LIMA.

My dear H. R.:

CONVERSATION WITH MR. TRIPPE

I have had a long talk with Mr. Trippe and find a little change in his attitude in regard to the distribution of payments between Panair and Grace & Co.

He makes the flat statement that the Grace influence as agents in South America is very much exaggerated. He points out that Grace have not assisted us notably in any really constructive fashion. He mentions the necessity for paying for our rights in Chile and the seeming impossibility of securing "cabotaje" rights without a further payment.

He also says that the Grace influence did not prevent the Peruvian Government from taking away "cabotaje" mail rights in Peru.

He is willing to approve the \$6,000 I told him I thought I should pay at Santiago for the supervisory and legal ser-

vinces of Dagnino, Bulnes, Heavey, Metzner, etc. He would also approve the \$5,000 payment in Lima of which, as you recall, \$4,000 was to cover Thommen's salary. He considers, however, that it is ridiculous that we should cover Thommen's salary and not have Thommen definitely on our pay-[fol. 866] roll and subject entirely to our orders. As you will recall, Grace at present refuse to transfer Thommen to our payroll, for obvious reasons.

Mr. Trippe also considers we are paying far too much for agency services at Guayaquil as compared with what he is paying in Brazil for similar services. He knows that when we really wanted something in Ecuador either you went up to Quito personally or we assigned Zalduondo to the work. Therefore, he considers we benefit nothing from having Guayaquil Agencies in any other capacity than in charge of clearances; etc.

Mr. Trippe also says that we are paying too much at Buenaventura; that the SCADTA Company will attend to clearing our planes and give us launch hire for an additional \$7.50 per plane.

As you can see, the situation has not changed and I expect the Directors' Meeting next Wednesday, which is the first one since I came back, will be anything but amicable.

You will, I know, keep this letter as extremely confidential.

J. D. MacGregor.

JDM/Q

[fol. 867]

GOVERNMENT'S EXHIBIT 411

Letter No. 3
(H. J. R.)

New York, June 15, 1932

D. S. Iglehart, Esq.,
Lima, Peru

Dear Mr. Iglehart:

You may recall that almost immediately upon Shannon's arrival in Santiago friction arose with our people there in connection with changes which Shannon proposed to make in the way of administration of Panagra's business. One point which Metzner particularly objected to was Shannon's proposal that all Panagra mail be handled directly in Panagra's name without going through our office. You may recall my stating at the time that I felt Vidal was in some way responsible for this. This is now confirmed from the cross correspondence. A recent letter from Harris to Vidal stated:

"Hope that the situation in Santiago is progressing satisfactorily and that Shannon is not having the same opposition that he seems to have met with at first. I will write Mr. MacGregor about addressing everything Panagra Santiago as you suggest."

While all of the above has now been straightened out by Mr. MacGregor I am not sure how long it will stay in that condition and I am passing this to you with the idea that in your talks with Harris and Vidal you may, without disclosing the above, assist to keep the matter on the rails.

Very sincerely yours,

(Sgd.) HAROLD J. ROSE

P.S. For obvious reasons you will appreciate that it is highly desirable that the fact that we have seen the above letter from Harris to Vidal be kept strictly private.

H.J.R.

[fol. 868]

GOVERNMENT'S EXHIBIT 412

New York, July 15, 1932

L. Valverde, Esq.,
Valparaiso, Chile

Dear Valverde:

I understand that Nyquist has ceased to be an employee of Grace y Cia. and has entered into a definite contract with Panagra. While this particular instance may not be of very great importance, it raises rather definitely the question of what our policy should be in reference to assigning to Panagra the men in our coast houses who are devoting all or a part of their time to its business.

While it is a temptation to get these men off our pay-roll in these times I think in the long run we lose money by doing so. After all, we have always sooner or later collected for the time of these men and a little more with it and I think we will continue to do so. But when the question of compensation for Grace services comes up at the end of the year the first question our partners always ask is what have you done—not in general, but specifically. The more people we can point to devoting time to this agency the better off we are. We cannot collect for work done by men on the Panagra pay-roll. We always take the position here that a personnel with many years' experience on the coast is a valuable part of our contribution to the business and that we should not be called upon to turn them over to Panagra for the asking and once we do so we have given away our asset. Panagra management is constantly pressing to do everything and leave us as agents on a limb. When we turn over important men to them we facilitate this and greatly weaken our own position.

This question is really involved in the larger one of the relations between Panagra and its two parent companies and I would therefore appreciate it if you would advise the Santiago management to consult with us before indicating to Panagra officials their acquiescence in their taking over any of our personnel.

Very truly yours,

(Sgd.) HAROLD J. ROE

[fol. 869]

GOVERNMENT'S EXHIBIT 413

Airmail Leave Stgo July 31

Due N Y Aug 6

Copy by Maria Aug 4

Due N Y " 22

Grace Y Cia. (Chile) S. A.

ORIGINAL AIR MAIL LETTER

Regular Mail Copy Follows

Santiago, July 30th, 1932.

Harold J. Roig, Esq.,
New York.

Dear Roig:

You remember the conversations I had with you and MacGregor in connection with Shannon's activities here. At that time I wrote to Metzner my letter No. 10267 copy of which I enclose herewith to refresh your memory, and which letter was verbatim a transcription of MacGregor's statements and was also approved by you before sending it out.

As you see from that letter MacGregor was going to write to Harris regarding the situation along the lines indicated in my letter. In other words, the idea as expressed by MacGregor was that Shannon was going to be in charge of operations practically in the same form that Robinson had been previously.

I have been discussing this matter with Harris and Metzner and the former tells me that the letter received by him from MacGregor does not define the situation as clearly as it was expressed by MacGregor during our discussions and it is Harris' understanding up to now that Shannon's position is not exactly as described in my letter after our interview with MacGregor.

The understanding in Chile is that Grace's responsibilities cover everything connected with Panagra with the exception of operations and certainly this was what MacGregor told us at that time.

In order to make clear what is the understanding under which Grace, Chile, have been working so far I refer to the memorandum drawn up by Harris in August 1930, dated from Santiago, copy of which I enclose and on which [fol. 870] are defined the responsibilities of W. R. Grace & Co., and of the Operations Department. It is true that this memorandum was cancelled some time later, but I think it was principally in connection with the question of division of payment of some of the employees, but it is also true that so far, according to Metzner, they have continued working practically within this program, until the arrival of Shannon. Since his arrival here, notwithstanding our conversations, there have been some deviation from the mechanism of the work within this plan in order to avoid misunderstanding, but since the matter is not clear I think it would be a good thing if you took the matter up with MacGregor and arrived at a definite understanding.

It is the understanding of Grace in Chile that whilst the staff is in Panagra payroll attending to the 13 points of Grace's responsibilities, all those men are actually responsible to Grace and should be completely controlled by them.

Very truly yours,

/s/ L. VALVERDE

LV:JR

[fol. 871]

GOVERNMENT'S EXHIBIT 414

Airmail	Leaves	Stgo	Aug	7
	Due	N Y	"	14
Copy by	Barbara		"	18
	Due	N Y	Sep	5

Grace Y Cia (Chile) S. A.

ORIGINAL AIR MAIL LETTER

Regular Mail Copy Follows

Santiago, August 5th, 1932.

Harold J. Roig, Esq.,
New York.

Dear Roig:

I confirm my cable No. 10 in answer to your No. 3. In view of the cable sent by Harris I had to *****.

As you know, I wrote the previous letter in front of Harris and he told me that he, in turn, was going to write to New York on the subject. From my conversations with Harris and from the correspondence that he had received, it seems that there is a fundamental misunderstanding with reference to the question of personnel of the Panagra. The whole staff of Panagra, with the exception of the operating men, has been always considered as Grace staff and under their responsibility and direction and I am told that it was only left on the payroll of Panagra in order to comply with the law that obliges them to have 75% of Chilean personnel.

1068

[fol. 872]

Grace Y Cia. (Chile) S. A.

ORIGINAL AIR MAIL LETTER

Regular Mail Copy Follows

Santiago, August 5th, 1932.

Harold J. Roig, Esq., New York

I take it that you have a clear understanding on this point as the whole Traffic Section has been always considered belonging to Grace, as undoubtedly Grace are the ones that engaged the men and always gave them all instructions up to the moment that Shannon arrived.

As I told you in the cable there is no doubt that Harris must have given instructions to Shannon to take over the traffic work and he has been actually doing so and Metzner has allowed this to go on, pending clearing up this matter with Harris and myself. There is no doubt that Harris' ambition is to handle the whole thing themselves; in fact, he actually said so in our interview, but of course, I do not believe that his intention would be to contradict his superiors' views if clearly put before him.

Although Shannon is actually doing this work I do not think there should be any difficulty in reinstating the modus operandi that existed until his arrival.

.....

[fol. 873]

Grace Y Cia (Chile) S A

ORIGINAL AIR MAIL LETTER

Regular Mail Copy Follows

Santiago, August 5th, 1932.

Harold J. Roig, Esq., New York.

..... In other words, the point that should be cleared up is that the Traffic Section here has been built up and managed by Grace and not by the Panagra.

.....

Very truly yours,

/s/ L. VALVERDE

LV:JR

[fol. 874]

GOVERNMENT'S EXHIBIT 415

Airmail Leaves Stgo	Aug 7
Due N Y	" 14
Copy by Barbara	" 18
Due N Y	Sep 5

Grace Y Cia. (Chile) S. A.

ORIGINAL AIR MAIL LETTER

Regular Mail Copy Follows

Santiago, August 6th, 1932.

Harold J. Roig, Esq.,
New York.

Dear Roig:

Your letter of July 15th. There is no question that the policy as outlined in your letter is the one that should be

invariably followed. I have taken the matter up with Metzner and he understands the situation thoroughly. The thing, however, boils down to the question of whether Panagra accepts the situation that all men handling Traffic and Accounting are actually Grace men. In the minds of the management here there is no doubt whatsoever that this is the case and that the men are only left on the Panagra payroll for convenience sake. I think this is clearly proved by the form in which the fees are dissected in letter No. 10218, of my series, to Metzner and written by you, where it is clearly stated that there is a fee for general supervision, a charge for rent and a clearance fee. From that clearance fee the payroll of Panagra is deducted, but [fol. 875] to my mind it seems that this is merely a convenience and that Panagra should recognize that that Staff actually belongs to Grace, as it has always been the understanding in Chile.

There is no doubt that the whole Traffic business has been created from its infancy by Grace and I do not think that it should be fair for Panagra to consider those sections as belonging to them or getting any credit for them, merely because for convenience sake their salaries are on their payroll. I don't think there would be a doubt in anybody's mind that when operations were in charge of Robinson he had any interference whatsoever with any of these activities.

Very truly yours,

L. Valverde

LV:JR

[fol. 876]

GOVERNMENT'S EXHIBIT 416

Letter No. 418

Airmail 2/25/
Santiago 3/4/3

New York, February 24, 1933

A. Garni, Esq.,
Santiago, Chile

Dear Garni:

I enclose memorandum of Mr. Cogswell which is self-explanatory.

Perhaps you have some ideas on the subject and if so, we would be glad to get them.

Please understand that Mr. MacGregor is not making any complaint and Cogswell's idea and mine in writing to you is not primarily to make any complaint but rather, if possible, to anticipate complaint.

The matter is particularly acute in connection with the secondary service we have started in Peru. Mr. Iglehart is very keen about this service and the idea of having it worked into a Peruvian company with the many collateral advantages which that would give us. We are always in danger of losing our cabotage rights in Peru and if we could get a Peruvian company going to carry on this secondary service it might at any time be of the very greatest assistance to us in this connection. For this reason, quite apart from the business itself, we are very anxious to make a success of this service. We will not be able to do [fol. 877] so unless we get business for it. This means active solicitation of passengers and other business and this job is the job which our houses and agencies are expected to do and ought certainly to be able to do in a far more effective and economical way than the Panagra organization. Nevertheless, the proof of the pudding is in

the eating and we are very definitely being put to that proof right now.

Very truly yours,

(Sgd.) HAROLD J. ROIG

[fol. 878]

New York, February 23rd, 1933

C
O
P
Y

MEMORANDUM FOR MR. ROIG

Mr. MacGregor has several times stated to me that in his opinion the Grace Houses on the Coast do not actively go after business, either steamer or air, but rather take the attitude that they are glad to sell tickets to anyone who will come in and buy one. While I have naturally taken the position with him that I do not think his impression is correct, nevertheless, I must confess that I have gathered in a general way, in the case of Panagra at any rate, that there is something in what he says. Most of the activity and original ideas for getting new business, which is extremely necessary in the case of the airways, has originated with Panagra personnel.

I might cite as one instance the question of traffic from Arequipa. Mr. Farris took a trip to Cuzco to inspect the landing field and on his return to Arequipa by train procured five plane passengers who otherwise would not have flown. He called attention to the fact that at that time apparently no effort had been made by the agents to endeavor to get passengers from these trains or to acquaint them with our service.

[fol. 879] I am attaching herewith copy of letter No. 756 from Peruvian Airways Corp. to Grace y Cia., Arequipa, from which it is perfectly evident that very little initiative is being used by Arequipa Agencies in the question of the commencement of the service between Arequipa and Cuzco

which we are interested in starting, and very probably if anything is to be done Panagra will have to send their own man.

W. F. Cogswell

[fol. 880]

GOVERNMENT'S EXHIBIT 417

W. R. Grace & Co.
New York

Air Mail 3
New York 3

No. 156
(AG Trip Series)

ORIGINAL AIR MAIL LETTER

Copy Follows By Steamer

SANTIAGO, March 6, 1933

Harold J. Roig, Esq.,
NEW YORK.

Dear Roig:

PANAGRA

Your 118:

As you know, I was only in Peru a very short time and have not really had an opportunity to get any reliable impressions, but offhand I would say that the situation as portrayed in Cogswell's memorandum to you probably corresponds to facts as they exist. I have, however, seen a great deal of the Panagra office here and have been in fairly close contact with Shannon. I must say that Panagra's affairs are well looked after by Shannon and his staff.

One of the first subjects Metzner took up on my arrival here was the lack of sufficient authority over Panagra. I asked him just what he had in mind and he said that they should have broader general authority with reference to administrative matters that have to be decided from time to

time. I then asked him whether he thinks Panagra's business would be better handled by him than it is being handled at present, and much to Valverde's and my surprise, he answered in the negative. This talk closed the doors behind him and Valverde was rather disappointed at Metzner's confession in the above sense.

[fol. 881] Shannon is a very good man and has his heart and soul in anything that concerns Panagra, and if anyone should ever suggest going back to the previous system, I, for one, would vote against it.

Coming back to the criticism brought out in the memorandum enclosed with your letter No. 118, I can do nothing until I get to Peru, which as I told you today, should be the case in about two weeks. If I get my work here sufficiently advanced in time to take the plane on the 16th instant, which is about the time you will get this letter, I will probably decide to go by air as it would mean a saving of almost a week.

Very truly yours,

/s/ A. GARNI

[fol. 882]

GOVERNMENT'S EXHIBIT 418

Letter No. 180

Air Mail
Lima

New York, April 6, 1933

A. Garni, Esq.,
Lima, Peru

Dear Garni:

PANAGRA

Your No. 156, I take it that you will follow up this matter further while in Peru.

The difficulty in Santiago as well as in Lima is not that the work is not being well done by the Panagra staff but

that they are increasingly taking over the work which it was always intended that our offices should perform as agents and if the development along this line continues, our offices are likely to find themselves performing no functions at all and accordingly when it comes to securing compensation for them it will become increasingly difficult as our partners here will naturally take the position that the agents are not rendering any services.

Obviously, the answer is for our offices as agents to see to it that they are in a position to render these various services and that they keep themselves constantly in the picture and in a position to do so. I think this contact is pretty well maintained in Lima through Thommen but my constant concern is that beyond that and consultation with Miranda when various problems arise, we do not keep our hand in [fol. 883] the picture as much as we should. Panagra would very much like to take over Thommen but I have always resisted this for the reasons above indicated.

For your information, there seems some considerable likelihood of our having to locate at some new airport in Lima and I have heard some rumors that in this connection the idea is growing of moving the whole Panagra staff to this airport which would result in further separation. If you run into this idea in conversation with Harris or others, you might avail of the opportunity to discourage it. My own feeling is that just as Pan American and we keep very close touch on the Panagra organization at this end, our houses on the Coast should maintain a similar position there and I believe that in the long run the best results will be accomplished in this way.

Very truly yours,

(Sgd.) HAROLD J. ROBE

[fol. 884]

GOVERNMENT'S EXHIBIT 419

Original Letter
Steamer Copy Follows

Air Mail 4.22
New York 4.26

No. 214
(AG Trip Series)

W. R. GRACE & CO.

7 HANOVER SQUARE, NEW YORK

A. GARNI
VICE-PRES & TREAS.

LIMA, April 18, 1933

Harold^e J. Roig, Esq.,
LIMA, Peru.

Dear Roig:

PANAGRA

Four No. 180: I went over the whole question of passenger solicitation with Thommen, starting out on the premise that past performance was not satisfactory and that an intelligent system of passenger solicitation has to be laid out and initiated.

My provisional idea is that while Lima and Arequipa, which seem to be the pivotal points, should have a man especially detailed to passenger solicitation, the agency managers of the smaller outlying places ought to be able to attend to this job satisfactorily if they are properly coached and kept after from time to time. This, however, has to be done by the management of the Lima House, and Thommen, who really ought to be the connecting link between Panagra and ourselves, can do a great deal in this direction, in which sense I have spoken to him.

[fol. 885] While speaking to Thommen he said that in fairness to ourselves he must say that the atmosphere in the above respect has improved considerably within the last few months. I told him as well as Redshaw, that Panagra's and our own staff should establish much closer rela-

tions. My own feeling is that the continual picking on W. R. Grace & Co.'s organization by the Panagra people, or vice versa, is to a large extent the result of a certain tension that exists between the two organizations. I noticed this particularly in Chile and to some extent also here.

Too much importance seems to be attached to the collection of as large an agency fee as possible instead of to the rendering of first class service and the establishment of close contacts.

Very truly yours,

A. GARNE

[fol. 886]

GOVERNMENT'S EXHIBIT 420

PERSONAL 1291

SANTIAGO OFFICE—DAGNINO

NEW YORK

September 6, 1933.

Mr. H. R. Harris,
LIMA.

My dear H.R.:

I am rather disturbed at the information given me in your personal letter of August 26th, and I am just wondering whether all is as pleasant as it might seem. What I am particularly thinking about is—on what Panagra business can Dagnino spend 100% of his time? Do I understand that Dagnino is to handle some of the matters which have heretofore been handled by Shannon and, if so, has this departure from our recent policy been approved by you?

Confidentially, my own impression is that Grace & Co. have no work for Dagnino but wish to retain him, and if they can do so at our expense, they are that much ahead of the game. I am not at all sure how Mr. Trippe will view

this arrangement as he has constantly taken the position that Grace & Co. are our agents in South America and that the management of the concern is vested in Pan American Airways, Inc., through me as head executive.

In your personal letter #1495 you told me that Valverde was taking the position that accounting, traffic and all other kinds of business matters aside from strictly operations were the province of Grace & Co. In this same letter you stated that you had told Valverde that the Company was in a "state of flux at all times", whatever you mean by that.

I am particularly anxious to definitely know what led Valverde and Jory to make this decision. The Thommen case was different. As I recall it, we asked for his services on a 100% basis, and even in this case Mr. Trippe has several times stated to myself and to some of the Directors [fol. 887] that Thommen should be on the Panagra payroll and not on the Grace payroll. I should hesitate quite some time before I would consent to having Dagnino on the Panagra payroll, as, although he is valuable as a contact man, it would be extremely dangerous to charge him with responsibility for handling even negotiations with the Government.

* I should like to hear from you further and very definitely as to what is in Valverde's mind so that when I take up the matter, as I shall, with the Grace Directors, it will not be with any misunderstanding as to what has been done by the Grace Representative in Chile without, as I understand it, your approval and certainly without mine.

J. D. MacGregor

JDM/Q

[Vol. 888]

GOVERNMENT'S EXHIBIT 421.

PAN AMERICAN-GRACE AIRWAYS, INC.
422 East 42nd Street New York, N. Y.

PERSONAL. Letter No. 1536

SUBJECT: TRAFFIC DEPARTMENT

CRISTOBAL

September 13, 1933

Mr. J. D. MacGregor,
New York.

With regard to Van Law's private unnumbered letter to me of August 18, which I sent on up to you in New York asking you to note and return, it would seem that since you have returned this to me without initialling it, that you did not see it. What Van Law suggests is the desirability of a down-town ticket office at both Lima and Santiago, either in addition to other offices in the Grace Building in these places, or else as a self-contained unit, removing all our offices from the Grace buildings. I agree with Van Law that the present locations in both Lima and Santiago are not the most satisfactory, from a standpoint of traffic appeal. I feel that eventually we shall have to make an extensive study and come to a final decision on whether or not we should be satisfied to give up a certain amount of possible Panagra traffic in order to retain our offices in the Grace building at these two points.

(Sgd) H. R. Harris

H. R. Harris

HRH:AW

cc JMWL

1080

[fol. 889]

GOVERNMENT'S EXHIBIT 422

Cable Address "PANAGRA"

PAN AMERICAN GRACE AIRWAYS, INC.
122 East 42nd Street, New York, N. Y.

PERSONAL Letter No. 1578

Subject: GUAYAQUIL AGENCY

HRH/FL
enc.

LIMA; October 2, 1933.

Mr. J. D. MacGregor, New York

Your attention is invited to the attached copy of Kirkland's private SAGO No. 1752 (Sept. 28) to me on the subject of Guayaquil agency.

The information contained therein is in line with what I have previously written you about our agent in Guayaquil and would indicate that he, like some of our other Grace friends, seems to think that Panagra is something to be exploited for the benefit of the agency, regardless of how unethical his actions may be. I am not taking any action on this matter pending advice from you.

(Sgd.) H. R. HARRIS

H. R. Harris

[fol. 890]

GUAYAQUIL AGENCY

1752 SAGO (Private)

CRISTOBAL

September 28, 1933.

Mr. H. R. Harris,
Lima.

Mr. Searl advised me that he paid for the round trip passage of Mrs. Searl, Salinas, Cristobal and return in Sucre. This passage was paid for at 6.60 to the dollar.

the official rate of exchange being 6. On Guayaquil's credit memorandum covering tickets sold in sucres they invariably use a rate of exchange of 6 to the dollar, as applied to the regular dollar tariff. In this particular case, however, they gave us credit in the amount actually collected. However, the agency did not give Mr. Searl 10% discount for the round trip. Should New York, through copy of this letter, desire to look up this particular credit note from Guayaquil, it is attached to our Cash Receipt Voucher No. 8/162.

We know definitely of one other case where Guayaquil charged an irregular rate of exchange for passage collected in sucres. In this other case we did not, unfortunately, retain definite proof, but the circumstances were as follows: A passenger through from Guayaquil showed me a receipt which he had compelled the Guayaquil Agency to give him covering his passage. I noticed immediately the rate of exchange used as being 6.80 or 7. A few days later Guayaquil's credit memorandum came through covering this passage and crediting us only at the rate of 6 to the dollar, there being a discrepancy of 90 or 100 sucres on the amount credited us as compared with the amount indicated on the passenger's receipt as collected.

One other condition exists at Guayaquil which hardly seems right to me. We have received practically no credit for passages sold in dollars. As a matter of fact, the only ones which we have received from Guayaquil Agencies since establishment of the local currency account were for passages which Mr. Mackay sold in Salinas in dollars. Invariably Guayaquil indicates that they have never succeeded in selling passages in dollars. However, on passages sold in sucres they waste no time in forwarding us a debit note covering their commission payable in dollars; in other words, they are expecting us to accept the proposition which calls for their getting dollars in commission on tickets sold in sucres.

Furthermore, it seems that Guayaquil should be successful in selling at least a portion of their passages in dollars, particularly when you consider the fact that strict Grace

1082

[fol. 891] Line regulations now prevent them from selling steamship passage out of Guayaquil except in dollars, and practically every ship leaving Guayaquil carries about 20 passengers. Also, on numerous occasions they have sold passages Guayaquil/Miami or Guayaquil/Brownsville, and, while successful in collecting dollars to cover the Panair portion, Cristobal/Miami or Cristobal/Brownsville, invariably their credit notes come through covering the Panagra portion as collected in sucres.

The above information is forwarded to you with the thought that possibly you may desire to use this in discussing the Ecuadorean situation with our people in New York.

PAN AMERICAN-GRACE AIRWAYS, INC.

T. J. Kirkland

TJK AW
cc HRH
NY

[fol. 892]

GOVERNMENT'S EXHIBIT 423

Air Mail 10/28

Stgo. 11/3

No. 462
(A. G. Series)

NEW YORK, October 27, 1933.

Luis Valverde, Esq.
SANTIAGO, Chile

Dear Valverde:

PANAGRA/AGENCY COMPENSATION

To save repetition I attach hereto copy of letter No. 10,629 to Redshaw.

In citing examples which were used by Panair to prove that our services were to some extent ineffective and in fact prejudicial to Panagra's operations, I have endeavored

to avoid any direct reference with the exception of the Arequipa incident.

You will, however, notice from my letter to Redshaw that I spoke of a man who openly stated that it did not suit him to issue an air ticket on an exchange order because by doing so he would lose \$2.50 which he would get if he supplied the same passenger with a railroad ticket. This is the kind of thing which depreciates our services out of all proportion to its importance.

• • • • •
Yours very truly,

(signed) A. GARNI

Enclosure

[fol. 893]

GOVERNMENT'S EXHIBIT 424

Letter No. 3

Airmail

Lima 2/7/34

New York, January 31, 1934

A. Garni, Esq.,
Lima, Peru

Dear Garni:

CHILE CABOTAJE

• • • • •
LIMA AIRPORT

• • • • •
While the plan even if handled along simple and safe lines would involve our increasing our investment over what we have at present, there are some pretty important compensating advantages in owning our own airport and further very important indirect advantages in that as a part of the plan we would get our present concession extended for fifteen years from 1943 when it now expires.

One objection to the plan which is to be borne in mind is that it would probably mean a considerable concentration of Panagra activities at the airport and the consequent removal from our Lima office. Harris' idea is that the passenger station should contain office accommodations for the Panagra force now quartered in our office. This will, of course, have a tendency to remove the Panagra management from our supervision and guidance which I would consider unfortunate. I would appreciate it if you could discuss this whole matter with our people in Lima as well as with [fol. 894] Harris and let me have the benefit of your views as to the necessity or desirability of the move and if you consider that it should be made, your assistance in putting the arrangement on the best possible basis will be very helpful.

PERUVIAN COMPANY

We have as you know had this for a long time under consideration. Decision on the question has been deferred from time to time awaiting the arrival of Fawcett in New York with the idea that a plan might be worked out under some arrangement with him. He is now expected in New York shortly but may or may not come and in the meantime if you have any suggestions from the ground we will be glad to have them.

You are familiar with the general problem and the fact that our principal interest in this development is in connection with cabotaje business.

Very truly yours,

(sgd.) HAROLD J. ROIG

Encl.

[fol. 895]

GOVERNMENT'S EXHIBIT 425

Letter No. 65

Airmail 3/10/34

Lima 3/14/34

New York, March 9, 1934 /

A. Garni, Esq.

Lima, Peru

Dear Garni:

THOMMEN

Your No. 25.

Harris' memorandum to you of February 17th with reference to Thommen omits the following duties which were included under Harris' memorandum to me of September 25, 1930:

1. All traffic, including mail, cargo and passengers
2. Advertising
3. Local purchases, including checking of "presupuestos"
4. Control, through his traffic assistant, Mr. Matellana, of movement of all aircraft of Peruvian Airways Corporation, except test flights.

Some of these functions may be included under Thommen's duties as Comptroller but I should doubt if all of them were. The item I particularly do not like to see removed from Thommen's sphere of activity is the item of traffic (No. 1 above). This is an essential part of our Grace agency arrangement and should not be released. As I wrote you I think once before this problem may become acute with the new airport where I am afraid Harris will want to move most all of the activities now carried on in our office. If that comes to pass we should at least have some of our people also at the airport looking after such items as traffic.

Sincerely yours,

(sgd.) HAROLD J. ROIG

[fol. 896]

No. 25
(AG Trip Series)

LIMA, March 12, 1934.

Enis Valverde, Esq.,
SANTIAGO, Chile

Dear Valverde:

PANAGRA/CABOTAJE RIGHTS

.

Incidentally MacGregor is here and when he gets to Chile he will no doubt take up this question and will want to interest himself directly in it. While his presence may be useful, you will, of course, not relinquish the captaincy in this very important matter, as it is quite important that while availing of MacGregor's assistance, Grace y Cia, Santiago should keep control over every move that is to be made in connection with these negotiations. Very privately I might mention that in a similar question we have here with the Government with reference to the new airport, I had to do some skillful maneuvering in order to get the management and direction of the negotiations out of Panagra's hands into the hands of the management of our Lima House.

The Panagra people are all very efficient in their own way when it comes to operations of planes, handling of passenger movement, etc., but I feel so strongly that when it comes to a negotiation with a government on a matter which must of necessity be distasteful to that government, as in the case under discussion, they are simply not competent to handle the corresponding conversations. By this I do not in any way want to throw any reflection on their general ability, but do want to emphasize the importance of your making yourself the *principal responsible* party for the handling of whatever discussions you decide must take [fol. 897] place with the Chilean authorities with reference to the effort it is now felt should be made to secure the cabotaje rights in Chile.

If your views should differ totally from those expressed in this letter, do not fail to telephone or cable to Mr. Roig, to whom I am sending a copy of these lines.

Very truly yours,

(Signed) A. GARNI

[fol. 898]

GOVERNMENT'S EXHIBIT 426

No. 70

(AG Trip Series)

On Board M/S "Santa Clara".

March 15, 1934.

Harold J. Roig, Esq.,
NEW YORK

Dear Roig:

.....

One thing occurred to me as soon as I left Lima, and that is that if it had been possible it would have been better to have one of the Grace Panagra directors come with MacGregor on this trip. Of course, we have people like Kirby and Valverde at the pivotal points, but there are a good many problems with reference to landing places, change in equipment, etc., on which MacGregor will have to reach definite conclusions, and I think he would be steered and held in check if he had someone, trained in the Grace money-spending policy, alongside of him morning, noon and night.

.....

With best regards,

Yours sincerely,

(Signed) A. GARNI

GOVERNMENT'S EXHIBIT 427

No. 10,723
(A. G. Series)Air Mail 4.7
Lima 4.11

NEW YORK, April 3, 1934.

John T. Kirby, Esq.,
LIMA, Peru.

Dear Kirby:

PANAGRA THOMMEN

I enclose herewith a copy of my No. 25 and 58 to Mr. Roig, as well as a copy of his No. 68 and his memorandum of March 16 to me.

Mr. Roig is still somewhat afraid that the transfer of certain duties from Thommen to one of the Panagra people as a result of the recent realignment of Thommen's duties, may somewhat weaken our position. He feels strongly that if Thommen has not time to attend to the duties which were included in the memorandum of September 1930 and excluded in my memorandum of February 20 to Mr. Harris, he should be given an assistant of our staff.

I have also discussed the whole subject with Vidal, who also feels that we should not transfer any of Grace's duties to Panagra and that Thommen should really have an assistant.

.

Very truly yours,

(Signed) A. GARNI

Enclosures

[fol. 900]

GOVERNMENT'S EXHIBIT 428

No. 10,830

Lima 24/4/34

NY. 28/4/34.

W. R. Grace & Co.

Lima, Peru

ORIGINAL AIR MAIL LETTER

Copy Follows By Steamer

A. Garni, Esq.,
NEW YORK.

Lima, April 23rd, 1934.

Dear Mr. Garni:

✓ PANAGRA THOMMEN

After the receipt of your letter No. 10,723 I was not able to take this matter up immediately with Harris as I was remaining in the hospital with my wife.

However, last week I had several conversations with Harris along the lines that it was your feeling in New York as well as my own, that Grace were not fulfilling the function it was intended of them by not attending to traffic. I thought it advisable to concentrate on this important item as it is the one that Mr. Roig in his letter No. 68 to you particularly stresses.

Harris volunteered that as regards going back to the original set up as a justification for making a change in the handling of traffic that it was the idea originally that Panair should handle operations which, as he said, if carried out now would make him "de mas".

As you will recall I was in Santiago last September when the Panagra arbitration question was pending and I took the opportunity to privately recommend to Mr. Valverde the assigning of Dagnino entirely to Panagra, and I was able to bring in this question indirectly as evidence of how incorrect the Lima set up is and has been. In this connection I went over with Harris the form in which Panagra

[fol. 901] affairs are handled in all our agencies and there we, of course, handle all functions including traffic.

Another point came up which I made use of in connection with this question of traffic and that is, the idea of having a small outside sales office in Lima for tickets in the store of a Kodak agent. When Harris brought this to me for my opinion, I told him that it was an example of the necessity for our handling their traffic as I obviously could not sympathise with the idea of an outside sales office over which we had no control. In this connection this idea has been worked up by Jardine as Acting Division Superintendent and who has already commenced to show a considerable amount of commercial ability, a point to be borne in mind in connection with the idea of getting back traffic handling to Graces.

Yours truly,

J. T. Kirby

JTK/T.

.....

[fol. 902]

GOVERNMENT'S EXHIBIT 429

Letter No. 10,753
(A.G. Series)

New York, May 3, 1934

J. T. Kirby, Esq.,
Lima, Peru

Dear Mr. Kirby:

PANAGRA THOMMEN

Your No. 10,830.

I am not at all in favor of having Panagra take over Thommen. This question has come up repeatedly in the past and I have always taken this position for the reason that if Panagra are permitted to take over our people who are performing certain functions, it simply means that the functions will go with the man and our whole position will be gradually washed out. It is precisely because Lima

has pursued a too easy going policy in this regard that the present traffic difficulty arises. The original understanding, clearly expressed in written memorandum of September 25, 1930, was that the Grace offices were to handle traffic and Lima should never have permitted this important function to drift away from them. Certainly we cannot consider another step now which would mean parting with still other functions.

Very truly yours,

Harold J. Reig

{fol. 903}

GOVERNMENT'S EXHIBIT 430

W. R. GRACE & CO.

Lima-Peru

Due New York October 31st.

ORIGINAL AIR MAIL LETTER

Copy Follows By Steamer

—A. G. Series—

No. 10940

Lima, October 24th, 1934.

A. Garnie, Esq.,

NEW YORK

Attn: Mr. Harold J. Reig

Dear Mr. Garnie:

PANAGRA—THOMMEN

Rather close contact with Panagra matters and with Thommen during the last few months has led us to the conclusion that his handling of the departments of Panagra's Peruvian business for which W. R. Grace & Co. is responsible, leaves much to be desired.

He does take care in A-1 fashion of routine Government negotiations, such as straightening out Custom House dif-

difficulties, collection of Post Office accounts, settlement of minor controversies arising at Las Palmas, the following up of matters pending in Government offices, etc. He also contributes materially to the handling of matters which really should be taken care of by the local Division Operations Department, such as the purchase and shipment of gasoline and other supplies.

At least two other departments, however, for which Grace is directly responsible, have received very little attention. These are the Accounting Department of Peruvian Airways Corporation and the supervision of Grace agencies in their representation of Panagra.

• • •

[fol. 904] Needless to say, the situation above outlined will be emphasized with the continuous development of Panagra's Peruvian business, specifically, and in the very near future, when CADA and Aerovias Peruanas commence operations. It is simply too much to expect that Thommen is or will be able to bring to his work the degree of alertness and the grasp of Panagra affairs that we should have the right to expect of him.

We are particularly a little fearful that criticism will become more and more frequent from Panagra sources and that unless some steps are taken to avoid such criticism, the deficiencies of our present set up might afford an excuse for attempted gradual encroachment of Panagra personnel on our functions.

This is exactly how we lost control of the handling of Panagra traffic, which got away from us in fact, though not in theory, long before the discussions of last February.

• • •

Yours very truly,

J. T. Kirby

/s/ ABS
ABS/ABL

GOVERNMENT'S EXHIBIT 431

[fol. 905]

W. R. Grace & Co.
New YorkLetter No. 15
(HJR Trip series)

ORIGINAL AIR MAIL LETTER

Copy Follows By Steamer

Lima, March 30, 1935.

A. Garni, Esquire,
New York.

Dear Garni,

PANAGRA LIMA BUSINESS MANAGEMENT

Referring to the last part of my letter No. 13 the more I think of the business side of Panagra's problem here the more hopeless it seems to arrive at an effective solution without some rational plan under which we can exercise direct control. Kirby has been up at the sugar estates since the day after my arrival so I have not had an opportunity to go over the matter with him. I have, however, discussed it at considerable length with Shea and the more we get into the matter the more difficult it seems to evolve an effective remedy merely by the process of adding further patches to the machinery.

This naturally brings me back to the famous scheme worked out some four years ago and which Tripp in the last few months has been very anxious to revive, under which Pan American would assume responsibility for operations and we for West Coast business management. If we had the business end in our hands along the lines of that plan the whole picture would certainly be greatly simplified and it may be that the necessity of this will become so great that it may be worth considering paying the price, [fol. 906] which would, of course, be letting Panair attend to the operation, along the lines of that plan. I am not sure that this price is as bad as we may think it to be or

that we cannot by certain modifications of the plan make it more to our liking.

In any event I wish you would ask Miss Boucher to dig the plan out of my files, give you a copy and send one along to me. I would like to think it over again on the ground and perhaps make such changes in it as the situation here may suggest and then take it up with you again after I have reached a more considered opinion.

The plain fact is that on the business side we have a rapidly growing enterprise which ought to be provided with an organization in many ways more effective than the present one, and, in view of our peculiar setup I really do not see how we are going to provide this going along as we are. Some really radical change in the whole setup is necessary and so far I do not see how this is going to be brought about unless it can be worked out along some line analogous to that provided in the above plan.

Very truly yours,

Harold J. Roig

[fol. 907]

GOVERNMENT'S EXHIBIT 432

Letter No 27
(HJR trip series)

Santiago, April 6, 1935.

A. Garni, Esquire,
New York.

Dear Garni,

PANAGRA - OWNERSHIP

With Trippe's Transpacific development, doubtless followed by plans looking toward transatlantic service, Panagra is going to become an increasingly unimportant part of his kingdom. The time and thought which he is able to give to Panagra problems, always extremely slight, are likely to reach the vanishing point.

From Panagra's viewpoint, on the other hand, the association with Pan American, at one time an asset, may with this expanding program, become a positive liability. Not only will all this expansion undoubtedly be a drain on Pan American's financial structure, but it will put them more and more at the mercy of ample government subsidies, while at the same time their entry into the complicated political situation in the East will make them more exposed to political attack at home. As a part of the system we are likely to bear a part of the brunt of this exposure without any opportunity to benefit.

All of the above is fairly obvious, but the conclusion I draw from it is that, even more than heretofore, it might [fol. 908] suit us to acquire Pan American's stock in Pan American-Grace Airways and a situation might possibly arise where it would suit Trippe to turn his interest into cash.

Very truly yours,

(sig) H. J. Row

[fol. 909]

GOVERNMENT'S EXHIBIT 433

W. R. GRACE & CO.
Lima-Peru

Letter No 88 (Trip series) Airmail 6.
NY 6.

ORIGINAL AIR MAIL LETTER

Copy Follows By Steamer

Lima, May 28, 1935.

A. Garni, Esquire,
New York.

Dear Garni,

PANAGRA FINANCIAL &
COMMERCIAL CONTROL

I was glad to get your cable N 57, and your cable N 4 to Kirby of the 28th inst.

The plan we have worked out for financial and commercial control has the complete and enthusiastic support of the Panagra management including Mr. Harris and I feel confident that it ought to go a long ways towards solving what has always been a very difficult problem.

It is thoroughly understood that Shea here and Tschumper in Sanitago are to supervise the control of the Panagra movement in exactly the same way as they would any part of the Grace business and that it is the Grace Organization, as Agents, which is assuming this responsibility and these two men are to act merely as instrumentalities of the Grace Organization. They will, of course, respond to the Grace Management in the respective offices where they are located but they will maintain direct contact as the Grace representative with Vidal in connection with this new aspect of the agency service.

Very truly yours,

Harold J. Roig

[fol. 910]

GOVERNMENT'S EXHIBIT 434

Lima 1/23/36
NY 1/27/36

No. 4

(H.J.R. PANAGRA SERIES)

Lima, January 22nd, 1936

H.J. Roig, Esq.,
NEW YORK.

Dear Mr. Roig:

We have had occasion several times since your departure for New York to devote some serious thought to our future relations here with Harris and the Sago organization generally, especially in the handling of Panagra Peruvian Traffic. Since Harris' departure, as you probably realize, we have been able, with the authority left in our hands,

to accomplish a good many things in a comparatively short space of time. We feel that we have kept scrupulously within the authority given us both prior to and after your departure by the Panagra office in New York, and we have received the highest degree of cooperation from the entire Panagra staff here. We are a little bit afraid that this cooperation will disappear to a very considerable extent with Harris' return, and, to make a long story short, we feel that while he is in New York it should be definitely decided whether we are to be responsible hereafter his return, to him and to the Sago organization or to the New York office of Panagra in handling the phases of Panagra Peruvian business which we are now managing. If we are to be responsible to Sago, we believe that our efficiency will be seriously impaired. One or two incidents will illustrate the point.

[fol. 911] A few minutes before the departure of yourself, Harris, and Vidal from Limatambo, Harris called Mr. Kirby and myself aside in the Waiting Room. Naturally, in view of the many important matters pending at that time, we thought that he was about to give us a few last-minute suggestions as to how some of them should be handled. Much to our surprise, however, he said that he just wanted to let us know that a good many people in the Panagra organization had the feeling that W. R. Grace & Company, Lima, was interfering too much in Panagra business; that in some cases these people were wrong but that in other respects they were right; and that he hoped that during his absence we would keep these remarks in mind. He then walked away.

Very truly yours,

/s/ ANDREW B. SHEA

ABS/FPB

GOVERNMENT'S EXHIBIT 435

NO. 28
(HJR PANAGRA SERIES)

Lima, April 17th, 1936

H. J. Roig, Esq.,
NEW YORK

Dear Mr. Roig:

Receipt is acknowledged of your letters Nos. 7 and 8.

You may rest assured that Shea and myself have been watching very closely the Panagra results, and with Worsley's assistance we shall be very happy to exercise over this business as you say, "the same control as we do over the sugar estates or any of our other businesses". Moves that you have made recently will be of great assistance to us in this direction, citing as the best example the new capital appropriation form that gives us the opportunity to be in on Panagra expenditures from the time of their conception. Needless to say, our approval will not be placed on any such recommendation if we are not entirely in accord.

.

Yours truly,

(Sgd) J. T. KIRBY

GOVERNMENT'S EXHIBIT 436

W.R. GRACE & CO.
NEW YORK

May 12th, 1936.

MEMO TO MR. ROIG

Herewith some interesting figures on express traffic.

I find that Vidal has a very definite idea that Grace solicitation for express traffic on coast is not active, is largely

left in the hands of juniors who do not understand the schedules and that the loss of business in 1935 as compared with 1934 is due to this.

Of course Smith has now been over the system and will be here next week and he will undoubtedly work some improvement, but the actual solicitation in all countries will have to be carried on by Grace and I suggest that the attached memo be sent to Grace management in all countries with the request to give this matter more attention and to make some senior official responsible for its development.

R.H.P.

[fol. 914]

GOVERNMENT'S EXHIBIT 437

PAN AMERICAN GRACE AIRWAYS, INC.

135 East 42nd Street New York, N.Y. Cable Address

LETTER NO. Sago 7420

PRIVATE

SUBJECT: REQUEST FOR CAPITAL
APPROPRIATION

LIMA

August 29, 1936.

Panagra,
NEW YORK.

Your attention is invited to your letter 4445-P of April ~~August~~ 10, 1936, to W. R. Grace & Company, Lima, on the subject of "Request for Capital Appropriation." This letter is not sufficiently complete in that it does not cover special cases, or rather, it covers special cases but in a way which is not satisfactory.

A particular instance has just arisen where it has been decided to purchase Kollsman altimeters as standard equipment for our various radio stations throughout the Panagra line. Under the pending instructions the local Grace office

is supposed to approve an R.C.A. form to be made out for purchase of these altimeters. Mr. Shea, the Grace local manager, has failed to approve this R.C.A. form as yet due to lack of knowledge of the reason for which these altimeters are required. Very obviously Mr. Shea has no knowledge of the requirement of these special instruments, particularly for use outside of Peru, and in future cases of Sago requisitions of this nature no time will be spent in trying to explain these matters to the local Grace people; but requisitions and R.C.A. forms will be forwarded direct to you containing the Sago section head's signature and the signature of the undersigned.

It is not often that such global purchases are required, and usually, as you know, the present method of handling R.C.A. forms has proven to be reasonably satisfactory.

H. R. Harris.

H. R. Harris.

HRH:KW

cc—Sago comms.

" Traffic

" Ops.

" Maintenance

NYX

2nd airmail.

[Fol. 915]

GOVERNMENT'S EXHIBIT 438

W. R. Grace & Co.
New York

September 18, 1936

MEMO TO MR. H. J. ROIG:

With the appointment of Muhlfeld as Panagra Traffic Manager, the designation of Smith to push air express and the education of Zalles in modern methods of traffic solicitation, I fear Panagra administration, when all of these

men are on the job, will become dissatisfied with the traffic solicitation by W. R. Grace & Co. as Agents for Panagra.

Muhlfeld told me that when he was stationed at Havana, he found it impossible to get any cooperation out of Chile and that Chile did not even answer letters regarding traffic which the Havana office wanted to develop. I gather that he has mentioned to Vidal his fear that he will be up against the same difficulty when he goes to the coast.

This may produce a state of mind rather menacing to Grace's position as Traffic Agent unless more thorough traffic solicitation is made apparent by Grace, not only at the principal cities, but throughout the provinces. Vidal has the idea that at lesser points the Panagra work is left to persons who do it rather perfunctorily and who do not exhaust the full possibilities. I have no personal knowledge, but I can imagine this may be true.

Kirby tells me that although W.R. Grace & Co. at Lima is the Traffic Agent, the actual traffic solicitors in Lima are on Panagra payroll. Possibly this impairs the effectiveness of Grace's supervision of the traffic solicitation. Generally speaking, pep can be infused only by the man who hands out the pay check.

I hope the letter to Shea, which I showed you and which goes forward today, will have the desired effect. It seems to me our head offices everywhere should be impressed with the necessity of giving all the traffic effort a big shove forward before Muhlfeld goes to the coast so that his obvious expectation of the lack of cooperation will be contradicted.

/s/ R.H.P.

[fol. 916]

GOVERNMENT'S EXHIBIT 439

MEMORANDUM FOR MR. KIRBY:

October 23, 1936

PANAGRA—COLOMBIA

I. *General Set-Up.*

At the present time, although the Grace organization in Colombia is the agent for Panagra in that country, it functions almost solely in matters of traffic and takes very little direct part in administrative or government problems. The result of this is that when Panagra has some important matter to take up with the government, it is generally done through the New York office of Panair (Mr. Evan Young), who in turn takes it up either through their lawyer in Bogota, Juan Uribe Holguin, or through Scadta. As Panagra's interests in Colombia are in some cases at variance with the ideas of Scadta, and probably Panair (who own 85% of Scadta, but claim that they do not give Scadta definite instructions in administrative matters), the result is that Panagra's affairs in Colombia are handled by entities which cannot be expected to enter enthusiastically into their successful solution, to put it mildly.

I believe that we should strive gradually to make the Grace organization in Colombia the representative of Panagra to the same degree that the Grace organizations in Ecuador, Peru, Bolivia and Chile are functioning. As a first step in this direction, I would suggest that the Grace manager in Colombia be instructed to commence a series of private correspondence with the Panagra New York office (along the lines of the series of letters which he has been addressing to Mr. Roig. Copies of these would, of [fol. 917] course, be sent to Mr. Roig with covering letter in the H.J.R. Series or, in other words, he would follow the same procedure which Shea uses in regard to correspondence about Panagra problems in Peru.

.

DOUGLAS CAMPBELL

[fol. 918]

GOVERNMENT'S EXHIBIT 440

December 23, 1936

MEMORANDUM FOR MR. ROIG:

PANAGRA - PERU MANAGEMENT

During my recent stay at Panama, Mr. Harris on three or four occasions brought up the question of the scope of the participation of W. R. Grace & Co. Lima in the management of Panagra and Aerovias affairs in Peru, which seemed to be a matter of considerable concern to him.

In general his attitude appeared to be that during the last year W. R. Grace & Co. had been taking over more and more of the functions of management of the airways in Peru. I pointed out to him that it had been agreed by all concerned that Grace was to play a more active part in the supervision of accounts and expenditures and in the development of traffic, as well as matters of local policy, to which he agreed but said he felt that there was a tendency for the Grace organization to attempt to take over the entire management in the course of time and he felt that since he, as Vice President of Panagra, was responsible to Pan American Airways as well as to Grace, that he should oppose this tendency.

His point of view in this matter may be the result of his personal reaction to having his own authority somewhat curtailed by the arrangement giving the Grace management a greater measure of control in Panagra matters; on the other hand, certain points which he mentioned specifically would seem to give some basis for his point of view unless they have other aspects which were not brought out in [fol. 919] my conversation with him. I would suggest that these matters be taken up with Mr. Shea with a view to developing a more complete picture of the situation.

Panagra Budget Meetings

Mr. Harris stated that the first of the meetings to determine the budget for the succeeding month in accordance with

the policy suggested by Mr. MacGregor some months ago, was called by Mr. Worsley and was attended by the Panagra department heads but no notice of it was given to Mr. Harris himself. It appears that Mr. Worsley on the following day merely advised him that it had been held and stated that he had assumed that Mr. Harris would not be particularly interested in attending it.

Budgets for a subsequent month, according to Mr. Harris, were prepared by Mr. Worsley practically single-handed without even calling in department heads of Panagra and this, it appears, gave him the idea that the Grace organization was working toward taking over the entire management. I told Mr. Harris that while it had been agreed that the Grace management would exercise close control over expenditures of Panagra and Aerovias, it was certainly not my understanding that they would prepare these budgets without consulting the Panagra people, and suggested that perhaps it had not been possible for Mr. Worsley to get all the men together before the deadline date. He still seemed to feel, however, that this procedure had been followed with the express approval, if not instruction, of the Grace management at Lima.

[fol. 920] *Aerovias*

Mr. Harris expressed himself as being dissatisfied with the way in which Aerovias is being managed as he feels that it is merely going along on its own momentum and that there is no single person in authority to tie all the phases of it together and push the business as it should be pushed. He repeated his remarks about being the only representative of Panair on the West Coast of South America and said that he felt that he should manage Aerovias and have some definite title in the company. I pointed out that the necessity of making Aerovias appear to be a Peruvian concern as much as possible made the question of a title for Mr. Harris rather difficult, but he felt that he should have at least a nominal title and that all concerned should be instructed that he was the person in authority.

I pointed out to him that since Aerovias was a local company in Peru, the question whether its manager was tech-

nically a representative of Panair did not seem to me to make much difference so long as the company was well managed, to which he replied that even on this basis, he thought he ought to run it. I then asked him whether the development of Ayulo to take charge of Aerovias would not solve the problem of tying the organization together and pushing its development, to which he replied that he did not consider Ayulo an effective man and that Ayulo had taken very little hold of the business. I then mentioned having seen in correspondence that Ayulo had done some [fol. 921] effective work in connection with permission for Aerovias to use a leased Panagra Ford on the freight contract and he admitted that possibly Ayulo had been useful in this respect but that in the active management of Aerovias Ayulo had done very little. He described Ayulo as being of a somewhat retiring nature and not the type to jump in and take hold of things.

He brought up as a further grievance the fact that in connection with proposed Aerovias sightseeing flights over Lima, he had been overruled by the Grace management and finally wound up by saying that somebody had to step in and really manage Aerovias and that as long as he was there he proposed to do it unless he received definite instructions to the contrary.

I have, of course, heard only one point of view on these questions and I believe it would be desirable to take these matters up with Mr. Shea and get his ideas on all of the points raised by Mr. Harris in order to determine whether some further steps are necessary to coordinate the Aerovias management more effectively. While it would be undesirable to take any action which would tend to weaken the position of the Grace management in carrying out its proper functions of control over Panagra and Aerovias matters in Peru, I believe something should be done to change Mr. Harris' attitude toward a situation which seems to exist, perhaps only in his own mind, between the Grace management and himself, and which cannot help but prejudice the best interests of the companies if it is allowed to continue or become further aggravated.

1106

[fol. 922]

GOVERNMENT'S EXHIBIT 441

No. 100

(H.J.R. Panagra Series)

W. R. GRACE & CO.
LIMA-PERU

Lima 1 4 37

NY 1 4 37

No. _____

Lima, December 31st, 1936

H.J. ROIG, Esq.,
NEW YORK.

Dear Mr. Roig:

I am sorry to have to write you of a serious error of judgment on Worsley's part which I am absolutely at a loss to explain and of which you will undoubtedly be hearing from Panagra.

A short time ago Worsley made a trip to La Paz to look over the accounts, and arrange certain details in connection with expenses, control, etc. While he was there our office in La Paz made the suggestion to him that Panagra might agree to a reduction of 50% in the postal tariffs covering Christmas and New Year's cards mailed from La Paz by air mail. Worsley, without consulting anyone authorized this action, and La Paz on the strength of his authorization officially notified the Post Office that the reduction was effective.

The first that I or anyone else knew of this action was when Panagra received La Paz letter No. 417, a copy of which I enclose, to which were attached copies of the correspondence exchanged with the Bolivian Post Office on the subject. Harris brought this letter to me yesterday afternoon and I immediately called Worsley in with Harris present, and he admitted that he had given this authoriza-

tion on his own initiative, with no explanation other than that he had done so without thinking. I told him in force [fol. 923] full terms that his action constituted an absolutely unwarranted assumption of authority which could not be justified and that it was incredible that he had so conducted himself, especially as it was his job to see that the funds of Panama are not disbursed except with proper authorization. I also told him that it seemed to me that the only possible explanation of his action was that he disliked to admit to the La Paz people that he lacked the authority to approve any such suggestion affecting postal tariffs.

There is nothing more to be said of the incident except that I fear that it will impair his relations with Harris and will give a good deal of color to the feeling on the part of a good many Panama people here that Worsley carries out his duties in too high-handed a way. This feeling to my mind is unwarranted but it is most unfortunate that he has now done something which might be considered as a justification for it.

Very truly yours,

ANDREW B. SHAW

Enc.
ABS FFB

Jan. 4th I enclose a copy of a letter written by Harris to Mac Gregor today, which requires no comment.

1108

[fol. 924]

GOVERNMENT EXHIBIT 442

PAN AMERICAN-GRACE AIRWAYS, INC.
135 EAST 42nd STREET, NEW YORK, N.Y.

LETTER NO. JDM 2154

SUBJECT: OFFICE FURNITURE FOR SANTIAGO

LIMA

March 11, 1937.

Mr. J. D. Mac Gregor,
NEW YORK.

Attached herewith please find signed R.C.A. form for office furniture for Santiago. You will note that all copies are attached herewith in spite of the fact that Santiago has definite instructions to send one copy to you prior to my signature, to avoid delay.

You must have received your copy of Santiago's letter #4794 to Sago on the subject of office furniture in the last mail. This is the letter to which these R.C.A. forms were attached. I have just received a cable from Santiago as follows:-

"35 REFERENCE TO OUR LETTER #4794 AFTER DISCUSSING WITH VIDAL SUGGEST THAT YOU CABLE NEW YORK FOR APPROVAL AS FURNITURE MUST BE ORDERED WELL IN ADVANCE."

I am at a complete loss to know why after a great many months of work on this office it suddenly becomes necessary to cable about furniture. Therefore I am not following their suggestion of cabling you for approval on this R.C.A. since I feel that better results can be obtained if you have the whole story before you rather than have to depend upon a sketchy cable for your decision.

I don't know whether the desks already in use by our Santiago office are to be used, since it is my understanding that we have not taken on any additional employees yet.

tainly not six additional employees. I have discussed this with Muhlfeld, and he thinks that the general idea is to have new desks and fittings to harmonize with the Grace Line desks and fittings, which I think is a good idea and worth the investment. However, there is one very important matter that Muhlfeld told me about on my inquiry, and that is that there is not going to be enough space for Panagra in the new arrangement. He drew up a cable to me on February 16th when he was in Santiago, as follows:

[Tel. 925] "PALMETTO-NEWYORK

FOLLOWING IS FOR H R HARRIS FROM J. E. MUHLFELD LOOKING OVER FLOOR SPACE ALLOTMENT PANAGRA SECTION SANTIAGO BELIEVE SAME DEFINITELY INADEQUATE ACCOMMODATE MINIMUM FORCE REQUIRED TO EFFICIENTLY HANDLE OUR BUSINESS. SIMON NOW NEWYORK KNOWS SMALL ADDITIONAL SPACE REQUIRED AS DISCUSSED WITH HIM BY SHANNON CONSISTING ONE THIRD SPACE NOW ASSIGNED TEXTILES SENTENCE SUGGEST YOU PUT MATTER BEFORE PROPER AUTHORITIES WITH IDEA THEY GIVE GRACE Y CIA (CHILE) S.A. NECESSARY INSTRUCTIONS TO PROPERLY PROVIDE PANAGRA OFFICE SPACE HERE. SUGGEST CABLE REPLY IN ORDER ALTER CONSTRUCTION PLANS NOW UNDERWAY WITHOUT ADDITIONAL EXPENSE"

The Grace people refused to allow the cable to go out, and Muhlfeld was at a loss to know what to do. Unfortunately, Muhlfeld was so anxious not to cross wires with our Grace friends that as a result of their turn-down of his cable he did not forward me the letter which he wrote on February 17th giving further details on the matter. In order that you may be familiar with all of the background of this matter I am attaching herewith a copy of Muhlfeld's letter which, as noted above, was not sent.

If Simon is still in New York I believe you should discuss this matter in detail with him since apparently our Grace friends in Santiago failed to provide any means for

11:0

Panagra expansion in their new office setup, which, incidentally; was never approved, as far as I know, by either me or you for Panagra.

H. R. Harris

H. R. Harris

HRH:KW

cc—NYX

2nd airmail

[fol. 926]

GOVERNMENT'S EXHIBIT 443

Copy of letter from H. R. HARRIS to J. D. MACGREGOR

Subject: ECUADOR

On business at Guayaquil,
April 5, 1937

Mr. J. D. MacGregor,
NEW YORK.

Dear Mr. MacGregor:

This will confirm the various exchange of cables between you and me during the week I have been in Quito.

On Friday, the President sent for me again, and again I was accompanied by Flores Guerra. The President made some very startling remarks about Grace's lack of interest in Ecuador.

I feel very strongly that when Campbell arrives in Ecuador he must be a direct representative of Panagra New York and not a representative of W. R. Grace & Co., if our interests are to be properly served. I naturally pointed out to the President that I was not a representative of W. R. Grace & Co. but that Grace acted as our agents at various points for business reasons, that Pan American-Grace Airways was an international operator entirely dependent

upon U. S. Government subsidy and that consequently we have to be neutral in every country through which we operate, since our business is not primarily with any particular country with which we are working, but with all of the countries. . . .

Yours very truly,

(Signed) H. R. HARRIS

HRH/WD
cc D. Campbell
cc G. Vidal, Buenos Aires
cc Manuel Holguin Guayaquil

[fol. 927]

GOVERNMENT'S EXHIBIT 444

9745-P

TRAFFIC CONFERENCES
PERUVIAN AGENTS

NEW YORK,
June 23, 1937.

S. A. G. O.,
LIMA:

Att: Mr. J. E. Muhlfield

I note the various recommendations made by agents. These agents, of course, speak entirely from one point of view, which is to make it easier to sell and anything that will make it easier to sell is always their first thought. They, of course, do not have the background in connection with the Faucett competition and the reasons which dictated our present differential. Nor are they cognizant of the costs of running extra services. Nor do they see the red figures which so many of our extra services have occasioned.

In connection with recommendation #3. Here is a prime case in which a salesman may be distinguished from a

1112

man who sells tickets. The Grace agents, for so many years, have sold tickets that they know very little about selling service. Yet I have never heard that they raised any strenuous objection to the differential between the SANTA INEZ and the SANTA LUCIA. Why, then, should they object to a differential between the DC-2s and Fords?

J. D. MacGregor.

JDM/Q
cc: HRHarris

[fol. 928]

GOVERNMENT'S EXHIBIT 445

No. 1

(HJR Trip Series)

W. R. GRACE & CO.

7 HANOVER SQUARE, NEW YORK

Air Mail
Lima 10.4

A. Garni
First Vice President

NEW YORK, September 29, 1937.

Harold J. Roig, Esq.,
LIMA, Peru.



Dear Roig:

PANAGRA

I had a session with Juan last night, the purpose of which was to go over that chart, which he has covered with a memorandum.

As before, I feel that he is on pretty sound ground and that, generally speaking, the new alignment of responsibilities should be adopted. It is understood, however, that if in your talks with Harris, you and George should find it necessary to make some minor modifications, there will be no objection.

Looking over the chart carefully as well as the memorandum, it will, of course, be apparent to you that Grace & Co.'s direct authority over the local management is somewhat curtailed. This, however, does not mean that they have not every opportunity to confer with Harris, etc., making suggestions, but the final decision rests with the president of the company and his respective advisers, particularly with reference to maintenance and operations. With reference to traffic matters, that, of course, will be the direct responsibility of the local representatives.

[fol. 929] Personally I see no objection and I believe that if the new set-up is accepted with enthusiasm the company will be more efficiently run and with much less trouble than before. I told him that in principle I thought well of the set-up and saw no objection to his sending the chart and memorandum to you by George Ruhl for further discussion, emphasizing, however, that I wanted to make two reservations: First, that neither this nor any other system is going to function unless we get a competent man to take the presidency of the company, and second, I wanted it understood that while *on paper* it would look as if Grace & Co.'s direct activities or intervention were somewhat curtailed, I did not want this to be used as an argument against us when we next discuss the making up of our respective expense accounts.

• • • • •
Very truly yours,

(S) A. GARNI

1114

[fol. 930]

GOVERNMENT'S EXHIBIT 446

NEW YORK COPY

PRIVATE
TRAFFIC REORGANIZATION
AND CORRESPONDENCE

LIMA, December 28, 1937.

Panagra, Agents, Lima
La Paz
Santiago
Buenos Aires
Cristobal (for record only)

Effective January 1st, 1938, Panagra traffic in South America will be established by countries and not by divisions.

The head Grace office in each country, and Buenos Aires in the Argentine, will be responsible directly to SAGO Traffic for the traffic work of all Panagra agencies in their country.

Inasmuch as Argentina, Bolivia, Chile and Peru are already organized on this basis, the principal change occurs in the Northern Division.

In this respect Cristobal office will supervise traffic in the Canal Zone and Republic of Panama; Bogota in Columbia, and Guayaquil in Ecuador.

As Buenaventura and Cali have at various times been on line stationz, correspondence between national head offices should be directed to Buenaventura or Cali, as the case may be, with copies to Bogota.

For obvious reasons we wish the national head offices in each country to maintain complete control over their national territory.

In order to accomplish this, national head offices are requested to write directly only to other national head offices.

In like manner SAGO Traffic will address correspondence only to the national head offices in each country and will expect the latter to follow the same procedure.

In those cases where time does not permit, offices will, of course, be obliged to divert from the above procedure and correspond directly with other than the national head offices, however, in all such cases copies should be sent to the national head offices concerned.

In addition to the above each national head office must refrain from corresponding with New York direct on traffic matters. All correspondence must be addressed to SAGO Traffic.

Following the same procedure we have arranged with New York to refrain from writing national head offices directly on traffic matters.

Naturally occasions will arise when this procedure cannot be strictly followed because of lack of time, however, if everyone will follow as closely as possible the above plan, we feel certain that much lost motion will be eliminated, greater attention will be given to your work by this office, and it will be possible to coordinate the efforts of all offices to carry out the principal function of traffic department, which is to promote business.

In line with the above the so-called national head offices will be Cristobal, Bogota, Guayaquil, Lima, La Paz, Santiago, and Buenos Aires. Montevideo will come under Buenos Aires.

For your further information and so you will appreciate the System organization, SAGO Traffic is in direct contact with the Panair System Division Offices and the Panair General Traffic Manager, New York.

H116

We believe the above is clear, however if you have any questions to ask, please communicate with us immediately as the above becomes effective on January first.

J. E. Muhlfeld

J. E. Muhl

cc NY HRH
Buenaventura
Cali
Guayaquil
Bogota
Montevideo
S T fls
R

JEM/ES

[fol. 939]

GOVERNMENT'S EXHIBIT 447

W R. Grace & Co
New York

Private and Confidential

February 18, 1938

MEMORANDUM

Garni and Roig were in Washington, and Garni took advantage of the opportunity of talking frankly to Harlee Branch about our problem of control and management of Panagra.

Branch appreciates the situation, sees the difficulty of dealing with Trippe, and says that they have somewhat the same problem in endless conversations, etc., etc., with him.

Branch expressed a definite opinion that Panagra ~~should be separated from Pannair, and~~ should have its own independent life and management.

It is very clear to me that Panagra, once it gets into the heart of Colombia, and, provided we can put on a service

three times a week, would become the most important and dominating trunk line through South America. If this can be brought about promptly we need not fear competition from Europe.

D.S.L. (Izlehart)

(fol. 933)

GOVERNMENT'S EXHIBIT 448

W. R. Grace & Co.

New York

Delray, February 28, 1908

Dear Rong:

Your letter on the subject of Panagra I find extremely interesting, and I am happy to have the opportunity, in view of a more complete knowledge of what is going on, to express an opinion on various points which you raise.

Expenses—

I quite agree with you that we should cut out unprofitable mileage, and I am entirely in sympathy with the idea of cutting out all local busips from which we cannot make money.

The most important task, I think, that you have to perform in going to the Coast is to begin to educate all of Panagra's men in a spirit of strict and studied economy, and you will decide whether or not it is going to be a practical thing to get Harris to really understand the value of money. After all, it is a pretty inexcusable thing for us to suddenly wake up to the fact that we are making such enormous losses in Aerovias, which losses have been going on for some time. The probability of such losses should have been sensed by the local management and their action guided by a desire to make money rather than a desire to expand in a thoroughly uneconomical way.

I think it is of tremendous importance to concentrate on getting a third trip a week from Washington, and I feel

rather confident that we will get it. Garmi, with Patchin's assistance, should in your absence press to obtain this, for without it I don't see how we are going to get Panagra into the black. But it is to be kept in mind that even if we get this [fol. 934] third trip, the increased income will be consumed before long unless we can dominate the management and force upon it a spirit of economy.

As I have said, Harris is a great fellow in many respects, but he doesn't understand a P and L account and he doesn't really understand the value of money. MacGregor also is extravagant.

I agree with you that Douglas Campbell is going to be needed in Colombia for the present, but after all, this matter of economy is going to be a long pull and there will be plenty of time, after Douglas has finished his task in Colombia, for him to get steadily to work on the plan of dominating the spirit of the administration of Panagra. He is the only man that I can see who is equipped with the knowledge, character and experience to accomplish the task. Therefore, I would keep him closely posted as to what is going on and prepare to have him jump into the task once he is finished in Colombia and once you have laid out with Ruhl the general lines of policy which the management of the business is to follow.

After you have worked out a plan for cutting out unprofitable mileage, and have carried out your excellent idea of simplifying operations, then it seems to me that the business divides itself into two broad phases, one is operation, including maintenance, and the other is developing international traffic through improved publicity and solicitation, both there and *particularly here*.

The plan that I suggest for Campbell will set the stage for dropping him into the South American management a [fol. 935] little later in case you find it feasible or advisable to do so.

D. S. Iglehart

Harold J. Reig, Esq.,
New York, N.Y.

{fol. 936]

GOVERNMENT'S EXHIBIT 449

W. R. Grace & Co.
New York

April 5th, 1938

MEMO TO MR. IGLEHART

PANAGRA TRAFFIC

At the present time Panagra head office in New York has no Traffic Department and no person in any way steadily occupied with the promotion of traffic or publicity.

W. R. Grace & Co. has done much more to promote the interest of *Panagra traffic in the United States* than Panagra itself but this effort is and has been intermittent for lack of a man working on it exclusively.

My idea is that the new traffic man to be employed by W. R. Grace & Co. should occupy the same relation to Panagra operations in South America that the New York Traffic Representative of the Union Pacific or Santa Fe do to those lines. He should be constantly visiting all sources of air travel or combined steamer and air travel agents and stimulate travel by air either by steamer or air to be routed via Panagra.

He should work up and push closer interchange of traffic between Grace Line and Panagra. Now that Grace Line is giving first-class passenger service to the West coast only fortnightly instead of weekly there ought to be a considerably larger opportunity than hitherto for interchange of passengers.

I am prepared to direct this effort and to get the best results would like this man to be one who has already acquired traffic experience, has acquaintance among the travel agencies, railroads, etc.

[fol. 937] This work ought to dovetail with Grace Line and in view of the close association with Grace Line it would be desirable to have somebody who understands steamship traffic and for this reason, Mr. Shiner seems to

me to be the best suggestion yet, but I do not think he would care to undertake it unless the job offered some real future.

(signed) R. H. P.

[fol. 938].

GOVERNMENT'S EXHIBIT 450

PERSONAL 2105

REED CHAMBERS' COMMENTS

NEW YORK,
April 14, 1938

Mr. H. R. Harris,
LINA

Mr. Vidal and myself had lunch yesterday with Reed Chambers, who was good enough to comment quite freely, and with very little reservation as far as I can see, upon the impressions he gained during his recent visit to South America.

The second matter of vital interest to Chambers was developed in the course of a conversation concerning the Faucett Company. I made the remark that both Lufthansa and Faucett, as concrete examples, overloaded their planes and took chances which were against our Company policy, and in spite of that fact they were lucky enough to escape accidents, whereas we had them. Chambers said that, from his personal observation, my statement that we did not overload our planes was made under a very grave misapprehension of what actually is taking place.

Reed stated that upon his arrival at Talara he found an Aerovias Ford was delayed there because of motor change. The pilot of the plane expressed himself as extremely annoyed because his plane had been overloaded en route and he said there was nothing he could do about it. It seems that at one of the stops the Grace Agent had booked three passengers in excess of the loading limits. This Agent insisted that the passengers be taken, and in order to get the passengers aboard he loaded a Peruvian lady of about 45 years of age at half fare as a minor, instructing her to set on her husband's lap from airport to destination.

Chambers said that the Grace Agent seemed to, as he put it, "rule the roost" and force the pilots to do something in fringement of our landing regulations.

He said that the situation at Talara demonstrated that there seemed to be nobody charged with the responsibility of making arrangements for handling either planes or passengers on off schedule non stops. It would seem that a motor was sent to Talara to be installed when occasion offered for little other reason, according to him, than to give the personnel at Talara some work. The motor was installed on the Aerovias Ford by the Talara mechanical force and on the test flight "the bottom almost dropped off". I did not ask him just exactly what he meant, but it was very evidently a serious mechanical error.

[fol. 939] On other matters not particularly connected with his own mission, but conducting as a passenger, he considered that we were miles behind the Panair service on the East Coast as far as looking out for the comfort of passengers, and of course the privacy of meals, was concerned. He stated that several passengers with whom he had talked who were Americans and accustomed to flying told him that they would prefer to travel via the West Coast on account of the saving of time, but that this time saving was far outbalanced by the courtesy and prompt attention to passengers' wants on the East Coast. He gave numerous examples of what he meant. He mentioned particularly the careless way in which the comfort of passengers was provided for at Arica, Talara and Buenaventura. I believe you are familiar with his comments from what Kirkland must have told you. I of course explained that Talara was an off schedule stop and that we had always had difficulty with the International Petroleum about accommodations for both personnel and passengers. There was, however, no excuse that I could offer for the perfectly awful meals served at Buenaventura and for the fact that, although the plane left Talara at the crack of dawn or possibly earlier, after the passengers had had the sketchiest possible kind of breakfast, there was no offer of bouillon and saltines, or any kind of food, before the arrival at Buenaventura approximately at one o'clock in the afternoon. As a matter of fact, the passengers did not even know they were to be

fed at Buenaventura until one of the ground personnel informed them of the fact as they left the plane.

Chambers is of the distinct impression that our stewards are put on the planes without any sort of training whatsoever. He said that one of the stewards was so untrained that, after the pilot had rung for him five or six times, Chambers had to go forward and wake him up and send him to the cockpit. This was on an international plane. Of course Chambers was at Lima when one of the stewards was killed and he attributed the accident entirely to lack of training.

J. D. MacGregor

JDM:MD
c.c. HJRoig (blind)

[fol. 940]

GOVERNMENT'S EXHIBIT 451

No. 33
(HJR Trip Series)

Air Mail 5.6
Lima 5.9

W. R. GRACE & CO.
7 Hanover Square, New York

A. Garni
First Vice-President

NEW YORK, May 4, 1938.

Harold J. Roig, Esq.,

LIMA, Peru.

Dear Roig:

CENTRALIZATION OF CONTROL,
ACCOUNTING ETC.

Your No. 24:

I think I touched upon this briefly in my letter No. 27, wherein I endeavored to report to you the net of my conversation with George Rihl.

There never has been any doubt in my mind as to where the control, accounting, etc., should be concentrated and I

heartily subscribe to the views expressed by you to this effect in your various letters, quite irrespective of how this might affect our firm's direct intervention in Panagra's local activities.

Here again, however, I think no definite move should be contemplated until we get the major question of management settled in one form or another. When that is done, and I hope successfully so, very few people will be required at this end and I feel sure that with concentration of control on the Coast rather than here, together with concentration of accounting in perhaps less detail than is now done, the general supervision over Panagra's functions will become infinitely easier at this end and the final result will be eminently more satisfactory than it is now.

During one of my talks with Vidal, I led up to the above [fol. 941] ideas and he immediately took advantage of the occasion and said that he would like to refer to some previous conversation in which he expressed a very definite desire to come back to our firm. It occurred to me that if we all agree, as appears to be the case, to transfer the accounting and the direct control to Lima, and provided we can take over the full management of Panagra's affairs, Vidal, instead of being transferred to Lima as Comptroller, might possibly be the very man required here as the president's righthand man.

With such a man, plus a technical man—perhaps Harris or someone else a little less rigid and more conservative when it comes to money matters—plus a stenographer and a bright young boy, it ought to be easy sailing.

In all these discussions I am, of course, somewhat incensed over the impossibility of making any further headway with Juan. However, I have not given up hope to make some progress under this heading and I am, in fact, at the moment endeavoring to contact him here in New York, with a view to resuming my conversation where I left off some few months ago.

Very truly yours,

(signed)

A. GARN

1124

[fol. 942]

GOVERNMENT'S EXHIBIT 452

August 10, 1938

MEMORANDUM FOR MESSRS. ROIG AND GARNI

I think it important that you, one or both, should see Mr. Trippe as promptly as you can arrange it and endeavour to get him to agree to a plan under which Panagra will have an independent management and name a president who would take the responsibility for the administration of the company.

If you can agree with him in principle as to the advisability of following this procedure, then the question comes of the selection of the man. I am hopeful that you will be able to agree with him as to this selection.

I think it would be well for you to advise Mr. Trippe that we have taken an interest in Eastern Air Lines and that our idea in doing so was to develop a collaboration that would result in a traffic benefit that was mutual.

I think you will be able to make clear to Mr. Trippe that in view of the train of thought both of the public and of the Government, the theory of a monopoly of foreign aviation in the hands of Panair is a mistaken one.

D.S.I.

Iglehart.

[fol. 943]

GOVERNMENT'S EXHIBIT 453

PRIVATE

March 8, 1939

Memorandum To: Mr. H. R. Harris

Following your instructions, the following observations on last year's results are submitted. In addition I would like to make several general observations in which you may be interested.

One or two general observations regarding the Panagra picture as a whole may be in order here.

X. It is my frank opinion that after ten years of operation, Panagra finds itself, so far as the Sales Department is concerned, miserably represented throughout the majority of its territory. This may not be at all true and probably is not where operations and executive affairs are concerned, but in matters of this type the local agency manager or a competent assistant handle them. Not so with sales. This branch of work, which is certainly not unimportant, is left as a general thing, to a local employee of a not-too-high type. Where this condition obtains, and it does rather generally throughout the line, results have been very poor indeed, though probably no poorer than might have been anticipated long ago. SAGO Traffic has spent much time and effort in trying to convince various agency managers to assign better personnel to its work, but so far with comparatively little success. My own experience has been that the local managers do not believe that the amount of extra business a better staff might obtain would, in agency commissions, justify an increased salary expense. This, almost invariably, has been the excuse given when we have found it necessary to demand better attention from the smaller agencies. On several occasions it has been definitely pointed out to SAGO Traffic that despite what might be heard to the contrary, our West Coast agents are very well paid indeed for handling our work. If this is the case, it occurs to me that the method of compensating them might be improved upon from the Sales Department's point of view. If the agents regard their Panagra representation and the direct compensation therefor, as being relatively unimportant as compared with some of their other activities, but are nevertheless properly compensated, would it not be a good idea to find some way to rectify their ideas in this regard? One way of doing this might be to pay them as, if and when they accomplish something for us and only then. This is the way we are presently operating along the Diagonal in Argentina and except for the stations where we obviously have the wrong man acting for us, it works very well.

[fol. 944] SAGO Traffic regards, for example, the Salta and Tucuman representatives far superior to most of those on the West Coast in similar posts. There is plenty of reason for this feeling. These two agents are always on their toes, know all there is to know about our rules, regulations, what we have to sell and how to sell it, because their only hope of making anything out of their Panagra representation lies in their ability to obtain business for us. If these agents have not so far set the world on fire with sales, it is certainly not because they have not tried, but almost entirely because we have given them, up to this time, so very little to sell.

Another indication that we may not be following the right plan as regards dealings with our agents, can be drawn by making a comparison of the results obtained in Peru by Faucett's agents as compared with those obtained by our own. Certainly few of Faucett's representatives have anything like the standing in their respective communities that our own agents do. They get better results and there can be no question but what they do and have done for years, simply because they know that they must pay attention to their representation, or, in other words, sell, if they mean to stay in business. This is not so vitally important to our own agents, and the results are only what we might have expected, which is to say that Faucett out-sells us by a wide margin.

With but very few exceptions our Agency managers and sub-managers are unable, as pointed out above, to take a long view of the situation and remember that in the long run their Panagra representation really is a rather good thing. On the other hand, they do keep a very close watch on current receipts and there is some justification for this reason in believing that our sales work is for them a relatively unimportant matter. Where this is not the case, for example, in Cali, Colombia, we are, in my opinion, quite ably represented, although in the case of this particular station the staff is comparatively small. The personnel that they have assigned to our work, however, is distinctly high class. To some extent the same might now be said of the Guayaquil Agency, where a competent foreign

employee is directly in charge of all phases of Panagra work and does not forget that sales are a very important part thereof.

Other considerations may of course, make it impossible to follow the course suggested above, which is paying for actual accomplishments when they are effected and not at any other time. If it is impossible to follow a plan of [fol. 945] this kind, then some other means should be found to make it very clear to our agents that we expect the kind of attention to our sales work as they give, for example, to Grace Line sales. In a great many of the Coast agencies the Grace Line has succeeded in obtaining services of the very best employees of the individual agencies, in some cases having supplied Grace Line trained men to the agencies, whose salaries, we believe, are nevertheless for the account of the local agency.

Merely in passing it might be worthwhile mentioning here that no later than yesterday, while lunching with a former passenger, whose company gives us a considerable amount of business first and last, I was frankly told that the attention this man received on the West Coast—and apparently the attention shown several of his acquaintances who have made the same sort of trip he had—was markedly inferior to that received on other sections of the system. I personally have heard the same story so many times during the past two years, that there must be some truth in it unpleasant as it is to believe it. However, in the last analysis it is only reasonable to believe that if our routine affairs are not handled to our satisfaction, as they certainly are not, there is no reason to believe that this particular phase of the work is handled any better. Indeed there seems to be quite a sufficient amount of evidence to support the theory that we are not up to scratch in handling passenger traffic, and I believe that the failure occurs largely on the ground and not in the air.

G. P. Smith

GPS:ER

GOVERNMENT'S EXHIBIT 454

SERVICES RENDERED
PAN AMERICAN-GRACE AIRWAYS, INC.
BY
W. R. GRACE & CO.*In South America*

The South American houses and subsidiaries of W. R. Grace & Co., including Panama Agencies Company in Panama and the Canal Zone, Grace & Co. C.A. in Colombia, Guayaquil Agencies Company in Ecuador, the Lima office of W. R. Grace & Co. in Peru, Grace y Cia (Chile) in Chile, and the La Paz office of W. R. Grace & Co. in Bolivia, act as the general agents of Pan American-Grace Airways, Inc. in the countries named and in the various cities of those countries where the planes of the Company call or where the Company has business. W. R. Grace & Co. maintains (and has done so for many years) offices in the capitals and principal cities of all of these countries and the personnel of these offices, a considerable number of whom devote their entire time to this work, perform these functions. These general agency functions do not include intervention in any way in the flight or ground operations of the line, which are under the control of the Company's own staff. They do include all of the general commercial, financial, legal and governmental phases of the Company's business in all of the countries on the West Coast of South America through which the line operates.

1. Executive and General

The executives in charge of these respective territories handle personally the negotiation of government concessions, [fol. 947] sions, post office contracts and the Company's arrangements with local competitive lines, national and foreign. Such negotiations are, of course, carried on in strict accordance with the Company's instructions and in consultation with Company's executives both in its South American General Office in Lima and in New York. The Company's current day to day relations with the govern-

ments of the respective countries in which the line operates (viz., Canal Zone, Panama, Colombia, Ecuador, Peru, Bolivia and Chile) are also maintained under the supervision and in more important matters, with the personal intervention of the local Grace executives stationed at the respective capitals of these countries. In Peru, the W. R. Grace & Co. management also attends to the commercial, governmental and financial activities of Cia. Administradora de Aeropuertos, a subsidiary of the Company, which owns and operates the official public commercial airport of Lima and operates under government contract the official public commercial airport at Arequipa, Peru. As illustrating the extent of these services, the negotiation of the purchase of the site of the Lima airport and of the government concessions under which both airports are operated, required a substantial percentage of the time of the Peruvian Manager and his associates over a period of two years. The Company's relations with local government officials are also maintained by the Grace agency heads at points such as Cristobal and Balboa in the Panama Canal Zone; Panama City in Panama; Bogota and Cali in Colombia; Quito and Guayaquil in Ecuador; Chichayo, Trujillo, Lima and [fol. 948] Arequipa in Peru; La Paz, Oruro, Uyuni and Villazon in Bolivia; and Arica, Antofagasta, Valparaiso and Santiago in Chile.

Employees of W. R. Grace & Co. are especially designated in each of the countries mentioned who handle under the supervision of the local W. R. Grace & Co. management, routine day to day dealings with the several governments and the various departments thereof in connection with operations, changes of route, schedules and tariffs, airports, radio, and the constant mass of detailed departmental matters arising in connection with the conduct of the Company's business in each of the territories specified.

2. Traffic

Traffic work in connection with passengers, mail and express is performed either directly by the South American houses of W. R. Grace & Co. or under their immediate supervision over the entire West Coast. This includes so-

licitation of traffic, publicity, sale of tickets, attending to customs and collections on air express and guaranteeing COD charges, attention to incoming and outgoing passengers, mail and express, attending to overnight accommodations, and in general, the whole matter of traffic sales administration. Grace employees are in charge of the Panagra traffic staffs in Lima and Santiago where Panagra has its own traffic personnel and in Cristobal, Balboa and Panama City in Panama; Bogota and Cali in Colombia; Guayaquil and Quito in Ecuador; Chiclayo, Trujillo [fol. 949] and Arequipa in Peru; La Paz, Uyuni, Oruro, and Villazon in Bolivia; and Arica, Antofagasta and Valparaiso in Chile; where Panagra has no traffic staffs, all of this work is done directly by Grace employees alone. The local Grace management in each of the countries named is responsible, under the general direction of the Panagra Traffic Sales Manager, for the development of traffic and for traffic results. In addition to traffic sales and the other matters referred to, attention to receipt and dispatch of planes in the year 1938 involved 2,432 Panagra arrivals and departures (apart from Lima and Santiago where Panagra's own staff assisted by W. R. Grace & Co. personnel does this work) at 13 different ports of call in Colombia, Ecuador, Peru, Bolivia and Chile, and 650 Aerovias Peruanas arrivals and departures, in Peru at the regular Panagra ports of call and at Cartavio, Casma, Chimbote, Ica, Pisco, Mollendo, Pacasmayo, Paíta, Paramonga, Piura and Sullana, not on the regular Panagra schedules.

3. *Financial*

All capital expenditures of the Company in South America are passed upon by the local management of the W. R. Grace & Co. offices as well as by the South American General Office of Panagra. In each of the countries named, the Grace accounting and cashier's departments attend to the handling of receipts and disbursements; collection of accounts and guaranteeing certain of them; preparation of payrolls, including the proper deduction from salaries [fol. 950] and wages of income tax, social security and other contributions required by law; the handling of workman's compensation insurance and insurance claims in connection

with passengers public liability, automobile transportation, marine air express, etc.; the provision of foreign exchange; the keeping of special local books of account where required to comply with local laws; and the invoicing and collecting of mail charges due from local post offices.

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[fol. 951]

GOVERNMENT'S EXHIBIT 455

PRIVATE

AGENCY PERSONNEL IN ECUADOR

QUITO

November 7, 1940

Mr. Harold J. Roig
Pan American-Grace Airways, Inc.
New York, New York

Dear Mr. Roig;

I am writing to you privately in connection with an important problem requiring attention.

With a view to overcoming the general inefficiency prevailing in Ecuador and maintaining Panagra standards and the type of service to which our passengers are entitled, it appears essential that Grace Agency personnel attending to Panagra business be well paid and carefully selected, irrespective of the type of personnel which the other businesses being handled by the Agencies may require.

Berenson has just spent three days with me in Quito and he is very anxious to render an A-1 service. He is, however, handicapped by the fact that he is under general instructions to reduce expenses in Ecuador and, apparently, has not been told specifically that any such instructions do not apply to Panagra as our business is expanding. The net result is that all sorts of serious mistakes are being made in connection with our operations, such as mishandling of the U. S. mail, over-carriage of passenger's baggage, etc., all of which must appear unexplainable to airmail users and to passengers who pay adequate rates for the services we offer.

I would urge that the Grace management in Ecuador be advised that Panagra is making adequate payments in New York for Agency services and that it expects and should receive excellent attention under all headings, including suitable office space, and that the attention given to Panagra passengers should be of a type comparing favorably with that provided by the domestic airlines in the United States and by Panair.

It seems to me important that the retrenchments that may be necessary in connection with the other Grace business should not be extended to Panagra.

Yours sincerely,

G. Vidal

GV:DM

[fol. 952]

GOVERNMENT'S EXHIBIT 456

PERSONAL

QUITO

November 21, 1940

Harold J. Roig, Esq.
New York, New York

Dear Mr. Roig:

Your personal letter of November 14 renders it evident that my private letter to you of November 7 was not clear to the extent that I seemed to be referring to the Quito Agency, whereas I was actually speaking of all agencies in Ecuador and I had in mind particularly the Agency at Guayaquil, which is responsible for most of the recent mistakes.

Holguin has been in Quito since then and he also appears anxious to render A-1 service at all points. I hope that his recommendations to New York will be approved without delay.

As I see it, the basic problem in Ecuador, so far as Panagra is concerned, is that the nature of our service requires higher standards than those generally prevailing

in the country. I am citing but one or two examples: In November 1939 I pointed out that the inside appearance of the Quito office was most unsatisfactory, particularly the paint job. Today, a year later, the situation is exactly the same and Holguin tells me that, as the lease expires next June, it is no longer worthwhile to paint the office. An international passenger stepping from one of our planes into the Quito office has every right to be somewhat shocked.

The plane dispatcher at Guayaquil, until recently, the source of the majority of the mistakes made, has the mentality of a 15-year old and was paid a salary of 600 sucres (\$40 USC) a month. In an effort to assist the Agency at Guayaquil we offered the services of Panagra purser Gonzalez, a very bright young man possessing all the necessary qualifications and earning a salary of about 1200 sucres (\$80 USC) a month. Some doubt has arisen as to whether the Agency can afford such a salary in view of those paid to employees handling other work.

This is why I feel that the Grace management in Ecuador should be told by Grace, New York, that Panagra operations are being compared constantly by passengers and others with domestic operations in the U. S. and with Panair's and that, regardless of what the local standards or the requirements of the other departments may be, Panagra must have excellent attention under all headings, suitable, clean and well furnished offices, and the highest type of personnel available, particularly so far as intelligence is concerned.

Yours very truly,

G. Vidal

GV:DM

1134

[fol. 953]

GOVERNMENT'S EXHIBIT 457

W. R. GRACE & CO.
NEW YORK

Letter No. 42
A. B. S. Trip Series

Air Mail: 11/27
New York: 11/29

Lima, November 26, 1940

D. S. Iglehart, Esq.
New York, N. Y.

Attention: Mr. H. J. Roig

Dear Mr. Iglehart:

CIVIL AERONAUTICS BOARD
GATES/HARDIN TRIP

Your letter No. 7.

Mr. Gates and Mr. Hardin arrived here Sunday afternoon from the South. You will, I presume, be hearing from Harris as to the details of his trip with them.

Gates was especially interested in the relationship between the Grace organization on the Coast and Panagra, and Garcia and I have spent practically the entire day with him today, with Harris and Campbell present, discussing this whole subject. Gates practically conducted an examination, and rather surprised me with the thoroughness with which he went into every phase of the agency arrangement. I explained to him in detail the way we are set up in Lima to handle the Grace agency functions, just what these functions are, the facilities available, and the men in our management and associated with us (Miranda and Ayulo) who are charged with the responsibility and who are available for consultation in connection with this phase of our business.

[fol. 954] Gates touched, among others, on two rather familiar themes. One of these was the competition which he said he presumed existed between Panagra and the Grace Line. Both Harris and I explained to him that this

supposed competition had never existed to any great degree, and that with the development in air transportation and the trend of business travel away from steamers and toward the planes, it had grown and is growing steadily less.

The other subject which we discussed at some length was the possible detrimental effect which might result to Panagra's business by reason of its association with a firm such as ours, whose interests are so extensive and perhaps conflicting at times with those of Panagra. He stressed particularly the growing nationalistic feeling which he has observed in the South American countries which might lead to hostility against the Grace interests and therefore against Panagra. This, of course, was easily answered, and I went rather fully into detail in describing the policy which has been and is being steadily followed of associating ourselves ever more closely with influential and friendly national interests in all the countries in which we operate.

A third subject in which Gates displayed great interest was the matter of the compensation paid to Grace & Co. as Panagra agents. I told him that I was not prepared to discuss in any way the basis on which the Grace compensation has been fixed, as this is a subject of which I [fol. 955] know nothing, and that full information on this point was available to him in New York. He persisted in returning to this frequently in the course of our discussion and evinced particular interest in the method in which the compensation received by Peru is distributed among the Grace agencies here. We explained this to him fully, and finally he asked point blank how much Lima had received in 1939 from New York. As the only alternative to giving him this figure was to refuse to do so, I gave it to him as \$34,507, but without any details.

In this connection you will, of course, appreciate that Garcia and myself went into the fullest description of the services performed by Grace in Peru and impressed upon him that the same functions as we attend to here are also performed by the Grace offices in the other countries on the West Coast.

Gates made copious notes of everything that was said and stated that he was doing so simply in order to refresh his own recollection.

Time will not permit me to go further into detail as to our conversation, which extended all told over four and one half to five hours, but I believe I have covered the high points of the talk.

Harris and Campbell were, of course, of great assistance in backing up and supplementing my description of the advantages to Panagra of having our firm as its agent on [fol. 956] the West Coast, and Gates expressed himself as being thoroughly appreciative of the time we had given him and of our discussion, which he said gave him an excellent picture of the arrangement under which we operate. I believe he grasped the picture quite thoroughly.

Very truly yours,

/s/ ANDREW B. SHEA

[fol. 957]

GOVERNMENT'S EXHIBIT 458

COPY

PERSONAL

NEW YORK COPY

ECUADOR AND COLOMBIA

QUITO

December 17, 1940

Mr. Harold J. Roig
New York, New York

Dear Mr. Roig:

COLOMBIA—What I am about to say is written in a constructive spirit, is intended for both you and Kirby and is based upon my own observations during the 30-day period I spent in Colombia last year and upon the comments made by responsible men in our organization who have had occasion to spend some time in that country more recently.

You will recall that I have felt for years that one of the important reasons why Panagra was pretty much of a stranger in Colombia until recently, was the fact that the Grace Agencies in that country did not have the time, the inclination or the knowledge to become interested in our problems and to protect us against moves made by Seadta's local management. In my opinion there has been a decided improvement since the Buenaventura stop was shifted to Cali and we are now much better known, particularly in the Cauca Valley. The fact that we are now in direct communication with Dr. Juan Uribe-Holguin, and that he understands the Panair-Panagra set-up better than he did a year ago, has also improved the situation in Bogotá quite a bit.

What I think still remains to be done is for Helbling and the rest of the management in Bogota and Cali to become faully familiar with our operations and with our problems, and for them to realize that our business has now grown to a point requiring a great deal of attention. Coffee and shipping have been their livelihood to-date and, whether they realize it or not, they have looked at Panagra as a relatively small business more or less foreign to them, causing a great deal of work and yielding little.

* * *

[Vol. 958] - Just an example: In Quito the Agency now has on its payroll, in addition to a first class Ecuadorean like Colonel Flores Guerra, Ballantyne, Cabeza de Vaca, Contreras, Barona, Vallejo (four of these speaking English fluently) and two other men, in addition to a secretary. This group is devoting approximately 95% of their time to Panagra matters and are busy every minute of the day with our four trips per week and incidental problems. The only addition since the domestic service started was Cabeza de Vaca.

In Cali, on the other hand, Morison, with one assistant given to him a few months ago, has been attempting to handle all Panagra work. It must be remembered that since September 1st Cali has been an overnight stop, whereas Quito is not. Airport Manager Wiggins at Cali, trained

1138

by Panagra, is handling so many Avianca and Panagra schedules that, for all practical purposes, he is less available to Panagra in Cali than Airport Manager Vasquez is in Quito, for the latter handles only Panagra work.

Very truly yours,

(Sgd.) G. VIDAL

cc: H.R.H.
D.C.

[fol. 959]

GOVERNMENT'S EXHIBIT 459

PAN AMERICAN-GRACE AIRWAYS, INC.
135 East 42nd Street New York, N. Y.

LETTER NO. DC-74

Mar 22 1941

SUBJECT: LA PAZ OFFICE

Lima

March 17th, 1941

Mr. Harold J. Roig
Pan American-Grace Airways, Inc.
New York City, New York

Dear Mr. Roig:

I enclose copies of our letter No. 1823-P to La Paz and of their reply No. 728-P, which are self-explanatory.

As I recall it, when discussing the matter of Sheldon's assignment a year ago with Dr. Guzman Tellez, he did not have any definite plan for re-engaging Brito, but he is correct in stating that he did not commit to take Sheldon permanently, having agreed to take him "for at least a year".

Personally, I feel that we should leave Sheldon in La Paz for an additional period and, in fact, figure on having

an American at the office there indefinitely, if not Sheldon, then someone else of the same type. Although Brito has his good points and can probably be of considerable assistance as a general contact man, the fact remains that, even during his period in charge of the Panagra work at the office, the actual work of selling, ticketing, and handling traffic was pretty sloppy, owing, I think, to the fact that there was simply no one at La Paz who had a real appreciation of how it ought to be done. Furthermore, with the development of the tourist business, some of which has already started to flow to La Paz, I feel that we should have a man in the office there who can speak the same language, literally and figuratively, as our passengers and can help us in our task of polishing up all phases of [fol. 960] our service to passengers and contact with them.

Another reason why I do not think Brito would be a good man to count on for this routine work is that he has always seemed to be pretty much interested in politics and there is no reason to believe that he would not leave us again, if a really good Government job were offered to him, as was the case before. I feel, however, that, if Guzman Tellez is so very anxious to re-engage him, that there is no reason why both Brito and Sheldon should not be in the Agency's employ to handle Panagra work, Brito to handle more general matters of Government contacts and Sheldon to handle the strictly sales and traffic handling matters.

This effort of the La Paz office to eliminate Sheldon seems to me to be rather important in principle, as it places somewhat of a stumbling block in the way of the training program on which we have embarked, namely, that of training young men for this type of work in the Panagra organization and then turning them over to the agencies to handle our work there. Naturally, if the agencies are going to oppose this program, except as a stopgap measure and are going to offer the young men in question no incentive for getting ahead, the whole program will bog down, and I believe Panagra work at the agencies will suffer.

As you know, in many cases it has been a pretty constant problem to get the agencies to be willing to employ and

pay the type of men we think are required for our work; and, although some improvement has taken place in recent years, it is always a real struggle at some points. If the agencies, such as the La Paz office, are opposed to employing this type of man or are opposed to paying the salaries required to engage and keep them, the only alternative left to us is to have some of the office personnel on our own payroll, as we do at Lima and Santiago; but I can fully appreciate that you would prefer to try and work the matter out with the agents, before resorting to this step.

In view of Dr. Guzman Tellez' positive statement in his letter attached hereto, I am afraid it is going to be difficult to get him to change his mind. I had thought some [fol. 961] of perhaps making a short trip to La Paz for the purpose, among other things, of selling him the idea of keeping both Brito and Sheldon; but, first, I would like to have your reaction to the problem as a whole and your approval of my approaching it in the manner I have indicated.

Sincerely yours,

Douglas Campbell

Douglas Campbell

DC:DM

cc:Ex.

[fol. 962]

GOVERNMENT'S EXHIBIT 460

Letter No. 4

A. B. S. Trip Series •

Lima, April 19, 1941

D. S. Iglehart, Esq.
NEW YORK

Dear Mr. Iglehart:

PANAGRA

In line with our conversation in New York, I have discussed at length with Campbell, Kirkland and Stebbins, as

well as with Garcia, the question of the housing of the Panagra Staff.

With respect to Stebbins, I spoke with him privately and took him severely to task for his action in approving Kirkland's recommendation in the form in which it reached New York.

It is quite apparent that Stebbins signed the RCA form without giving the subject very much thought and upon the urging of Kirkland. Kirkland told him that the idea of putting up a new building in Limatambo had been approved in principle by everyone concerned and while Stebbins did raise the point as to the provision of space for the SAGO staff, he stated that he finally signed the application in order to "raise the issue". He then wrote a letter on the side, calling our attention to his action but the letter, as you know, is so weak that it was hard to determine from it just what Stebbins' attitude was on the matter. I told him in Garcia's presence that he had no business to sign the application unless he approved the whole project and I also reminded Garcia, whom Stebbins had consulted, that the signing of these forms is by no means an empty formality. I repeated that the purpose [fol. 963] of requiring Lima's approval of the applications is to exercise control over proposed capital expenditures and that if they are to be signed simply to complete the form then the signature will become meaningless.

It is evident of course that Stebbins' action was taken without due thought. He has admitted his mistake as has Garcia and after the discussion we had on the whole subject, I am sure that matters of this nature will be studied in the future with great care by the Lima Management before its approval is given.

I then asked Garcia and Stebbins how they felt as to the merits of the proposal that Kirkland's department and the Accounting Department move out from Lima to Limatambo. I explained fully to them our policy with respect to Panagra affairs as covered in our discussion in New York and they both agree that it would be wholly undesirable to make this move.

I then discussed the whole subject fully with Campbell and with Kirkland. Campbell, of course, had been absent in Chile when the RCA form was signed and forwarded and he told Kirkland upon his return that he thought the latter had gone much too far. I explained to each of them clearly the importance we attach to the maintenance of contact between them and our organization here and Campbell very readily admitted that if he had an office in Limatambo he would undoubtedly spend practically all of his time out there and as a result his contact with Garcia and Stebbins would probably diminish to the vanishing point.

Both Campbell and Kirkland also agreed that in view of the fact that either of them is almost constantly absent from Lima and as it is desirable that the head of the Panagra [fol. 964] business keep in constant touch with the Grace Management here, it would be undesirable for Kirkland to move to Limatambo.

With respect to the Accounting Department the principal object in view apparently is to have both the SAGO Accounts and the Limatambo Accounts under one head. I agree with this which I also discussed with Nelowet and which simply means that we shall have to provide additional space in Lima for approximately 14 employees now occupied in the accounting section at the field.

I must say that as a result of my discussion of this subject with the men concerned I feel that there was no deliberate or concerted effort to lessen the present influence of the Grace Management here on Panagra matters. There is no doubt at all in the case of Campbell and as far as Kirkland is concerned, I believe that he looked only at what he considers to be the practical advantage of installing himself and his assistants in Limatambo.

.....

Very truly yours,

SHEA

[fol. 965].

GOVERNMENT'S EXHIBIT 461

PAN AMERICAN-GRACE AIRWAYS, INC.
135 East 42nd Street, New York, N.Y.

LETTER NO.

5634

SUBJECT: TICKET OFFICES

Lima, May 7, 1941.

PANAGRA NEW YORK

Att: Mr. C. de Groot

LIMA OFFICE!

Further to our letter #5572, the other day I arranged a meeting with Messrs. Shea, Stebbins and Wolf during which I pointed out the need for providing Panagra with a first class modern air line ticket office, located either in the Hotel Bolivar or near vicinity, with neon sign, modern show windows and all the other trimmings which go to make up a modern airline office. Three years ago I had a similar meeting in which the idea was turned down but after pointing out to Mr. Shea that Panagra was now selling more passenger business than Grace Line he took the attitude that whatever was best for Panagra's interest should be carried out.

As a result of our conversation we decided that Mr. Wolf would submit to me a budget with full details regarding the proposed new office and that in the meanwhile both Mr. Shea and myself would write to New York to inform Messrs. Iglehart and Roig. Mr. Shea pointed out that Mr. Iglehart had definite ideas regarding Grace offices on the west coast, and it is my understanding that his ideas are that Panagra should be located in the Grace buildings. In any event, it appears that Mr. Iglehart will have to approve the plan of separating the ticket office from Grace & Co., therefore, it is my suggestion that you speak to Mr. Roig and explain to him the need for making the change and also point out that the change in no way affects

the Grace Co. organization insofar as Panagra's representation is concerned.

Regarding this last point I would like to state that when Mr. Shea asked me whether this would bring about a change in the Management, I advised him that it would not for the reason that it would merely mean that the ticket office would be moved out of the Grace building to a new location with no change whatsoever in personnel or management. In other words, insofar as Panagra is concerned, we will continue to address our letters to Grace & Co., agents for [fol. 966] Panagra, and as far as running the ticket office is concerned, Mr. Woll, Sales Manager, will continue to work directly under Mr. Stebbins and the Grace Management in Lima.

I believe the above should be carefully explained to Messrs. Roig and Iglehart at the time you bring this matter to their attention, otherwise I am afraid it will be a difficult job to sell Grace on the proposed plan.

* * *

/s/ J. E. Muhlfield

J. E. Muhlfield, GSM.

JEM/EP

cc: (2)NY SAGO T S

HJRoig-NYK

[fol. 967]

GOVERNMENT'S EXHIBIT 462

64

HJR Series

Ticket Office

New York, June 4, 1941

Mr. Douglas Campbell,
Lima, Peru

Dear Douglas:

When I first read Lima's No. 5634 regarding Lima Sales Office, I did not take it very seriously. In speaking with

Woll the other day, however, it appears that he regards this change not only seriously but imminent. I am therefore calling the matter to your attention in order to prevent time being unnecessarily wasted in this connection.

It is my understanding that the facilities provided by the proposed extension to the Grace Building will give ample opportunity for a Panagra Ticket Office in whatever form seems most suitable. I see no reason for considering any change in the meantime. I have no objection to trying on an experimental basis, the idea of having a representative on an inexpensive basis at the Hotel Botivar but I see no reason for considering a complete removal of the traffic office.

Very truly yours,

Roig

[fol. 968]

GOVERNMENT'S EXHIBIT 463

PAN AMERICAN-GRACE AIRWAYS, INC.
135 East 42nd Street New York, N. Y.

Letter No.
DC-87

Lima, June 9, 1941.

Mr. H. J. Roig,
NEW YORK.

Dear Mr. Roig,

With reference to your letter No. 64, you have no cause for concern with regard to my own point of view on this matter as I have repeatedly told Muhlfeld that any consideration of moving the entire traffic office to another location would simply be a waste of time.

This whole matter is to a certain extent the outgrowth of DeGroot's recommendation that our ticket offices at all points be "streamlined" in order to make them similar to modern travel ticket offices in the States, and also his suggestion that some of them could be better located in the re-

spective cities in order that the traveling public would be more likely to see them. However, DeGroot was looking at this from the point of view of the American tourist who is still only a small part of our business and I think that he overlooked the fact that in a town such as Lima any one who is likely to travel by plane is fully aware of the location of the office.

I am in favor, however, of having a representative with a desk in the Hotel Bolivar or vicinity with proper telephone connections to the ticket office, airport and Reservations Control, as I feel that our tourist clients as well as overnighiting in transit passengers are entitled to the additional convenient service that such a setup would make possible.

As Muhlfield is leaving for New York tomorrow on account of the unfortunate critical illness of his father, you may have an opportunity to point out to him your ideas and general policy with respect to the above.

Sincerely,

(Sgd) DOUGLAS CAMPBELL

Douglas Campbell

[fol. 969]

GOVERNMENT'S EXHIBIT 464

PAX AMERICAN-GRACE AIRWAYS, INC.
135 East 42nd Street New York, N. Y.

Cable Address "PANAGRA"

Letter No.
TJK-8

Subject: ECUADOR

Lima, February 3, 1942.

Mr. H. J. Roig,
NEW YORK

Dear Mr. Roig:

I refer to your letter No. 7 dated January 16th on the above subject.

I believe that you will find that a large number, if not all, of the points mentioned in your letter are covered in my letter No. 7222-P which is going forward by this same mail.

We cannot, in my opinion, be content to blame these recent flare-backs in Ecuador on one specific thing such as maintenance. That item as well as many others should come in for its share of corrective measures and we intend to spare no effort in what we can do towards making improvements in the situation when even so it is not as bad as it sounds.

In any event, we have the problem ahead of us in Ecuador to combat the feeling that the DC-2 is an obsolete and worn-out type of aircraft. I made progress with Minister Long in giving him the details of the amount of money we have recently spent on keeping the DC-2 aircraft modernized, and so forth. I also went into further detail with Mr. Long pointing out the demands now on us regarding our mainline operation, etc. I further reminded him of the investments we had effected in making the airport in Ecuador all-weather year-around fields. Points such as Cuenca, Manta and Esmeraldas were this year enjoying uninterrupted service on all-weather fields whereas a year ago these points either had no air service whatsoever or were having interrupted service when field conditions were wet. I feel certain that considerable progress was made with Mr. Long in outlining these facts to him.

Mr. Moscoso and I called on the President of the Republic and spent a very worthwhile visit with him. He was [fol. 970] most cordial and again reiterated his understanding of our problems, but he did wish to advise us that he had heard certain criticism on the part of the public and certain Ecuadorean officials as regards the use by Panagra of obsolete type of aircraft. He said that he felt this was the result of an abnormal number of delayed schedules, a number of which had resulted from mechanical difficulties. He also said that this unfortunately came immediately on the heels of Panagra's withdrawal of the international planes from the Quito stop and consequently, this did not

help us any in the public reaction. This conversation with the President was, in our opinion, very favorable. We did not find anything in his attitude to make us feel unduly concerned.

In the meantime, I am in receipt of a cable from Shannon in Bolivia urging that we approve the exchange of Griffis for Stringer and stating that after going over the situation with Shea that the latter also heartedly agrees with our opinion in the plans of exchanging Griffis for Stringer.

While I have a high regard for Mr. Moscoso and the intelligent manner in which he and his office appreciates and helps with our problems in Ecuador, I must confess that I am somewhat taken aback by his letter of January 29th to you on the subject of Ecuador. Our agents there have already been aware for sometime that the criticism around our service in Ecuador is only in part due to the remarks stressed in Moscoso's letter to you as to maintenance and Operations. It seems that all our agents should realize that they share with us in the responsibilities of conducting an efficient service and should not appear too ready and willing to duck out from under by laying the blame to the strictly technical end of the business. The handling of our passengers, reservations, and counter, and information service in Ecuador shares equally in the blame in the recent flare-up of criticism and complaints. We have many cases of mishandling of passengers and misrouted express and baggage etc, over that part of the route. Perhaps, sitting at this distance we are inclined to misinterpret and overshoot on our own importance, but when we notice what far reaching effects this recent criticism in Ecuador can bring about, I often wonder whether I am out of order in thinking that in Ecuador possibly our agents should set themselves up primarily on footing required to properly handle Panagra business and to take their other activities in the stride, rather than appear to take Panagra business in the stride. I am, of course, in communication with Mr. Moscoso with the details of the problem we were confronted with last week and I hope to receive his usual good cooperation.

In conclusion, I again reiterate that we are sparing no effort to keep behind this matter and I will keep you well advised of anything out of the ordinary.

Yours very truly,

(sgd) T. J. KIRKLAND
T. J. Kirkland

cc: Extra

[fol. 972]

GOVERNMENT'S EXHIBIT 465

NEW YORK COPY 2624-P

AIR FREIGHT STUDY SERVICE

Lima, March 13th 1942.

W. R. Grace & Co.
La Paz.

Att: Mr. A. C. Poole

In connection with my recent trip to Bolivia, I found that our interior Agents are making any number of errors because they have not been properly trained as regards ticketing, airway billing and traffic handling. Furthermore, I noticed a definite lack of coordination between pursers, dispatchers and city Traffic Representatives, all of which has resulted in our giving poor service to the public.

In connection with your reports following each inspection trip, please limit same to what has been done, and minimize what must be done. In other words, what we want here is a report on what progress has been made, and not a report loaded up with detail as to what should be done, unless, of course, certain matters require action being taken here at S.A.G.O., in which case you should carefully present to us each problem and, in your opinion, its proper solution. As stated, therefore, your work should be largely one of on-line inspector and prompter.

J. E. Muhlfield
General Sales Manager

cc: SAGO

GOVERNMENT'S EXHIBIT 466

2349. Private.

SALES AND SERVICE—BOLIVIA

La Paz, Bolivia
October 24, 1942.South American General Office
LIMA.

Attention: Mr. J. E. Muhlfeld

Having completed an inspection trip with stopovers between schedules at each of the Bolivian Sawtooth stations, the undersigned wishes to submit the following report for your information.

Our agents at these points can be made to handle the simple duties required of them only under the strictest supervision from our central office. Following a careful check with the municipal authorities at each town and from first hand observation, I am certain that the individuals now acting as our agents are better qualified to represent us than any other men we could obtain locally, yet it must be borne in mind that under the present W. R. Grace budget, living conditions in this region require us to find our agents from among established residents of these villages. The alternative, of course, is to send down trained employees from La Paz or Cochabamba on short-term assignments at salaries adequate to maintain them as full-time agents and compensate for the miserable standard of living such agents would have to put up with. Since this is an expense W. R. Grace & Co. is not in a position to assume, we must do our best with the poor material on hand, and by steadily pounding away with first hand instruction, make the present organization operate to our satisfaction.

Such supervision must take the form of inspection trips involving stopovers at the points concerned by a responsible member of the central office at least once every two months, notwithstanding the fact that such a tour takes nearly three

weeks according to schedules and represents some physical discomfort of an enlightening variety. While from time to time we have sent subordinate employees from La Paz and Cochabamba on training assignments to the Sawtooth stations, the unsatisfactory progress made to date clearly shows that such field work must be undertaken only by our chief traffic representatives if we are to achieve the required results. It has been found that circular instructions emanating from La Paz, regardless of simplicity and clarity, are of only partial effectiveness in dealing with employees of limited education and intelligence.

At Concepcion, our agent is Mr. Juan Asin Jemio, a man of two years experience with Lloyd Aereo Boliviano under former management. In addition to his agency fee [fol. 974] he earns an income from the Bolivian state radio at Concepcion, where he spends two hours of the day working as operator. His work to date has been fair, yet discrepancies have been reported in his gasoline statements, now being investigated, which may disclose manipulation of funds which will require his dismissal.

At San Ignacio our agent is Mr. Carlos Mayser, a German of Bolivian citizenship and a former employee of LAB. The question of Mayser's nationality has been under discussion for some time. In December of last year we advised the U.S. Embassy of this man's status and it was suggested that he be removed. Subsequently Grace & Co. attempted to find a replacement in San Ignacio without success, and since there appeared to be no danger from this quarter the matter was dropped. The undersigned made a point of investigating this man's activities in conversation with people in San Ignacio, in particular with Mr. Samuel Decker and Mr. Frank Pickering, american missionaries stationed at Concepcion and San Ignacio respectively, both of whom have known him for a number of years. Mayser has lived in San Ignacio for thirty years, is married to a Bolivian and has four children, none of whom speak German, the eldest of whom fought in the Chao war with the Bolivian army. He is a respected citizen of San Ignacio with a good reputation, and in partnership with his brother represents the only business unit in the town. Under one roof is the

Post Office (his brother is Postmaster) consisting of a battered desk and shelves at one end of the room, while at the other end is the "Panagra Office". In the center is the General Store, run by both brothers. My personal impression of Mayser during four days stay in San Ignacio confirms all reports I have heard regarding his character, namely that he is 100% honest (a rare virtue in these parts) and loyal to the company. While we cannot be certain that his private sympathies are not on the side of Germany, he has kept his views to himself and steered clear of political activities, nor has he been known to have expressed any opinion derogatory to the company. On the contrary he has shown more interest in the company's welfare and a greater conscientiousness toward his job than any of our agents in this sector, and we firmly believe that Mayser would be in a position to do us greater harm in San Ignacio if we dismissed him for political reasons than if we maintained him as our agent, a job he is handling satisfactorily. Recently Mr. Shea of the United States Embassy visited San Ignacio and has reported to his superiors that this man is harmless. We have outlined the above for your information in case the question of our agency in San Ignacio should come up for discussion again in the future.

Our agents at San Jose are La Torre Hermanos, two brothers who own the town's general store. These are the only agents on the Sawtooth who have not had previous [fol. 975] experience with LAB, having been appointed as replacements to the former agent, Neptali Cuellar, when it was discovered that the latter, an old LAB employee, was engaged in anti-american activities. La Torre has shown interest in his work and as he and his brother are young men we should be able to build up an adequate permanent agency at San Jose, which point, located on the line of the projected transcontinental railroad, will increase in importance in the coming years. At present there are a number of Brazilians of the Comision Mixta Ferroviaria working on the railroad project at San Jose, promising an increase in traffic between that point and Corumba, headquarters of the comission.

In Robore our agency is managed by Luis N. Landiyar, with two assistants. This man has had five years' experience with LAB, and is the only employee on the Sawtooth who does not run a private business on the side. He is the most intelligent and capable of our Sawtooth agents, yet dissatisfaction with his salary has recently expressed itself in drink and a lack of interest in his job; the cure, stricter control and increased salary. More serious is the probability that he has been selling company gasoline against falsification of his gas reports, now being investigated by Mr. Brookshire. Here is a situation similar to that in Concepcion, which, if proved, would under normal circumstances demand the immediate dismissal of these agents, yet in view of the impossibility of finding qualified local replacements, we must think twice before taking the obvious measures and look for a way to bring these men into line.

Robore is probably the only village in the Oriente region which should show real signs of material progress in the near future. As the center of activity for engineers of the Comision Mixta, it provides a growing movement to and from Brazil, while the town itself has natural resources in the form of agricultural land, good sanitary conditions, and a potential source of hydro-electric power which should insure its rapid development as soon as the railroad line reaches it in an estimated eighteen months' time. Stoppage of supplies due to Brazil's entry into the war will handicap progress on the railroad to a serious degree, and, with the exception of Robore, it is doubtful whether this project will alter the primitive and poverty-stricken aspects of the towns served by Panagra in Eastern Bolivia for a number of years.

In April Mr. Federico Knaudt was sent to Puerto Suarez to replace Antonio Rivero, now assistant to Miranda in Cochabamba. Knaudt is a third-generation Bolivian of German origin, former cashier of LAB's Cochabamba office, and a high type of employee who has done an excellent job at Puerto Suarez in spite of a lack of familiarity with Panagra methods at the time of his transfer. Our staff at Puerto Suarez consists of the agent and two assistants, with a spacious office which on arrival of new furniture

[fol. 976] and fixtures being shipped from Cochabamba will be well equipped. From the standpoint of traffic movement this is by far our most important agency east of Santa Cruz. Excessive heat, mosquitos, poor food and sanitation plus the exorbitant cost of all prime necessities make living conditions in Puerto Suarez a real hardship for any man assigned to that point from La Paz or Cochabamba, and unless a system of station allowances is set up, a matter which will be discussed further in this letter, our personnel turnover at this and other points will remain a chronic problem.

As outlined in my letter of October 5th, adequate passenger overnight facilities at Corumba are now available with inauguration of the new guest house, and we assume that you are taking up with Rio the question of joint payment of costs. Panair do Brasil has opened a new office, and the deficiencies resulting from Rocha's lack of experience, involving reservations handling and mail transfer documentation as noted in my letter No. 2 from Corumba of last April 15th, have been straightened out to our satisfaction. You will be interested to know that Panair has nearly completed installation of a powerful new receiving and transmitting station at Corumba which will provide direct circuits to Lima and vastly improve our local communications to that point.

Training activities of the undersigned at the stations listed above covered all aspects of traffic handling involved in the work required of these agencies, including the following basic points: (1) Review of reservations procedure, disposition of allotments, use of purser's control card, etc. (2) Handling of express, with particular emphasis on tracing of claims, filing of claim forms, use of revised express receipt procedure, documentation of valuable shipments. (3) Mail handling, reception and delivery to planes and routing in accordance with new schedules. (4) Drill in passenger and express tariff calculations, particularly as applied to international rates to Brazil. (5) Revision of discount procedure to be followed on extension of special rates under CL-19, CL-20D, members of the Comision Mixta, etc. (6) Use of Weight Report, AUL's, and general

dispatch. (7) Handling of reservations requested by blocked nationals. (9) Complete revision of files and inventory of accountable forms on hand. (10) Establishment of requisition vouchers whereby inventory of supplies will be submitted monthly to La Paz, which office now controls distribution of all traffic forms.

It was found that the filing of circulars and tariff revisions at all of these agencies was in a thoroughly disorganized state, while stocks of accountable forms and office supplies, dependent on the former uncertain distribution system out of Cochabamba, were incomplete and in some cases lacking in the most fundamental necessities. Accordingly the undersigned devoted considerable time to [fol. 977] sorting out the files, revising tariffs, dividing correspondence into separate folders and arranging circulars for ready reference. Large accumulations of old english circulars from Sago, which are useless for these agents who understand only Spanish, were thrown away and the whole filing system pared down to the simplest essentials. As you know, for the last six months all bulletins from Lima have been cleared through La Paz, edited, and redistributed to the interior stations in the form of highly simplified instructions in Spanish. We have gone to a lot of trouble at La Paz to cover important phases of traffic handling in this manner for the benefit of our smaller agencies, yet, while each station was found to have this series of circulars on file, their comprehension and adherence to these instructions, due to the mental limitations of the agents themselves, will never be satisfactory unless backed up by periodic first-hand supervision.

We can state that there has been a definite improvement in reservations handling along this route, through a better understanding of procedure by the agents, revision of allotments, and a more efficient control of space maintained at Cochabamba. In hand with a smoother operation of reservations, dispatch problems in the nature of overloads have been cut down substantially. Poor radio service as a result of inadequate equipment and a serious shortage of trained operators will remain a handicap to our reservations set-up until this problem is finally straightened out by the Communications Department.

Our most important objective toward improving service along the Sawtooth is in seeing that mail and express is handled in strict accordance with documentation and receipt procedures standard over the rest of the system. In sounding out the status of our public relations at these stations, I have found that complaints are limited almost exclusively to mishandling of mail and express. Our training efforts along these lines have resulted in some improvement, but the few cases of mail overcarriage, loss or damage to express caused by sheer carelessness, represent irritations to the parties concerned which go a long way toward wearing down progress made in other directions. Some of the technical aspects of this problem have been covered in our recent correspondence to Sago. Primarily we are interested in speeding up payments on claims, which you will agree is a service of vital importance to our public relations. Delays due to lack of familiarity with claims procedure on the part of our agents is one side of the picture we are doing our best to improve; on the other hand, the [fol. 978] fact that claims must be cleared through Lima and sometimes through the insurance company represents an additional delay which, though largely unavoidable, does not sit well with the Bolivian public accustomed to the less formal methods of LAB. It is obvious that the delayed payment of a claim, rather than satisfying the claimant, leaves him with a feeling of resentment that he has been casually treated by a company which has little interest in the satisfaction of its customers, and, while he is waiting for his reimbursement, feels free to air his criticisms among his friends, a type of adverse publicity which spreads like wild-fire in the small communities served on our Bolivian routes. With improved express handling our claims are becoming less frequent with each month, and those that are encountered involve insignificant sums which should make the whole problem a very minor matter, were it not that delayed settlements cause irritations entirely disproportionate to the original injury incurred. If our recent efforts at training agents to speed up tracing and filing of claims, coupled with the streamlining of Sago's claims department, fail to improve this service, we intend to propose a system whereby La Paz may be authorized to effect immediate pay-

ment on claims up to a limited value per month, pending receipt of Lima's credit against clearance of the proper documents through the customary channels.

All agents have been drilled by the undersigned in the new express receipt procedure which has replaced the old Lista de Embarque system with use of purser's waybook sheets. We have prepared at La Paz fifty new special mail sacks, designed for the carriage of paid and company only, for use within Bolivia. On arrival of the Transcontinental at La Paz, twelve of these sacks will be put on board, tagged with the names of each local station, and as mail is received en route, it will be placed by the purser according to destination in its corresponding sack. On arrival at destination sacks will be emptied at the field and the contents delivered, but under no circumstances will the sacks themselves be turned over to the agents, since these will remain on board the plane, to be offloaded at La Paz on the return trip to Lima. Such a system will avoid the dangerous practice of loading mail in express sacks subject to offloading due overloads en route, and will further prevent overcarriage of small mail packages which are often piled indiscriminately on the rear seat by the purser. These sacks are now ready for use. We have further suggested to Sago Operations the construction of detachable metal shelves, with [fol. 979] compartments marked for each station for insertion in the rear parcel racks, as a means of filing documents and remesas for delivery along the route, in addition to ordering a number of large expanding leather briefcases for the same purpose. With little more than half an hour between stations on the Sawtooth the purser is obliged to be a sleight-of-hand expert. With mail, mail guias, express lists, weight reports, company mail and all sundry documents stuffed into his clipboard or piled on the rear seat he must rush to make up his transit weights, load distribution, discharge lists, and gather together his papers for delivery to the next station while passengers are clamoring for his attention up and down the aisle. Our job, then, it to simplify the purser's functions as far as possible, and one way this can be done is to set up a physical filing system on board the planes, as outlined above so

that distribution of documents can be effected in an orderly manner.

It is clear that any amount of efficiency we can develop in our agents can be nullified by sloppy work on the part of pursers. This subject has been covered at length in previous correspondence but we are still not satisfied that pursers assigned to this route are the best men available. If a new man is to be assigned to the Transcontinental run, he should not be allowed to work alone until he has completed at least two trips as extra crew, travelling NSPL, under the guidance of an experienced purser. Since his work on this sector is highly specialized, involving use of forms and procedures not encountered on our coastal services, a new man is bound to be at sea if he is sent out green without proper instruction. The agent at San Jose mentioned that one of the new pursers stepped off the plane at that point and asked the agent the name of the station! I have found new pursers with only a hazy comprehension of the reservations charts placed on board the planes at Cochabamba, with Guias de Remesas, the new running load chart, and other fundamental documents. We cannot afford to run these risks, and it is essential that new men be sent out on the line under the direction of experienced pursers before assuming responsibilities on their own.

Unless we can count on the establishment of training courses at Limatambo, under the control of a purser's technical department dependent on Sago Sales, and *not* under the Steward's Department, it does not seem likely that we [fol. 980] will ever satisfactorily solve the problem of obtaining efficient service from pursers operating out of Lima. Besides the actual handling of their duties, which depends on training and experience, these men are under a considerable physical strain in flying from Lima up to the Altiplano and down again to the heat of the Oriente region, and it is only natural that they lose their normal efficiency when working under pressure in the face of these conditions. Hence it seems difficult to break them away from the attitude that they are travelling on a barnstorming operation, a frame of mind enhanced by the physical strain they are working under which in some cases develops impatience and

irritability in dealing with our local passengers and agents along the line. As a rule Bolivians have a national inferiority complex and sensitivity which resents a lack of the proper deference from a Peruvian or an Argentine, so that it is all the more important that our pursers be trained to give efficient and courteous service.

The root of the problem lies in the fact that pursers have become so bogged down in paper work that they no longer exercise the function for which they were originally intended, namely service to passengers on board the aircraft. In Bolivia, where there are a greater number of stops in one day's run than on any sector of our international routes, the problem is accentuated to a point where, unless these men are rigidly trained, we may either have to revise the whole theory of pursers' functions or fly with two pursers, one to handle the load documents, and the other to attend passengers, an extreme measure which should not be called for were the system properly organized. Thus our efforts should be directed toward freeing the purser of as much paper work as possible, and as an example, we have been working at Cochabamba on an idea developed by Mr. Sampson, Airport Manager, whereby transit weights and discharge lists can be radioed between stations from the ground thereby relieving the purser of his two most complicated duties. While the theory looks fool-proof on paper, its execution depends on a highly efficient radio service which as yet does not exist in Bolivia, and we shall have to try it out in practice between Santa Cruz and La Paz before proposing its operation to Lima.

Recently an operations circular was published announcing the adoption of waybook sheets in place of the old Lista de Embarque system. We accordingly instructed our agents [fol. 981] in this procedure, yet we have not seen a single purser handling these documents correctly. As a matter of fact we do not think much of the system itself, a question we are taking up in a separate letter, but that is beside the point; the fact remains that the pursers are not following it out. We must insist on their filing express receipts in the Waybook designed for that purpose, instead of stuffing them at random into their clipboards; we must insist

on their collecting their mail packages, discharge lists, and express lists for orderly delivery to the next station, and insist on their cooperating with agents in checking cargo on and off the planes. There is nothing unduly difficult in this procedure, yet to date there has been no organization set up at Limatambo capable of training pursers to a point where they will show a better comprehension and sense of responsibility in the handling of their documents.

Obviously the Chief Steward has neither the technical experience nor the inclination to instruct pursers in this aspect of their work. We understand that at present Mr. Fuentes is in charge of documentary matters. It would appear, however, that there is a crying need for the establishment of a full-fledged purser's control section independent of the Stewards Department, as an integral part of either Sago Sales or Sago Operations, under the jurisdiction of a specialized administrator. This man should remain constantly in touch with purser's handling problems, investigate deficiencies, and take frequent trips over the line to consult with agents and examine documentation on board the planes. In view of the increasing complexity of the paper work required of pursers we can no longer afford to leave purser's training in the hands of the Stewards Department. We do not doubt that you already have this situation in mind, and look forward to the opportunity of inviting the chief of the purser's handling department to take a trip over our local routes, so that we can finally get down to business in straightening out these deficiencies.

[fol. 982] Last week, following a planned investigation, we succeeded in clearing up the express losses at Santa Cruz which have been puzzling us for the last two months—nothing less than a series of robberies committed by the assistant express clerk of that office. In addition to the Gonzales case, and a subsequent discovery of thefts at Cochabamba in August, this makes the *third* example of air express robberies committed by agency personnel in Bolivia during the last six months. We have turned the case over to the Santa Cruz police with the recommendation that it be dealt with in the strictest manner possible, and will advise you of the full details as soon as the prosecution has been carried out.

How are we going to avoid this sort of thing in the future? There is only one answer, and that is the payment of adequate salaries to agency personnel. The employee caught in the Santa Cruz robberies, responsible for the reception and delivery of hundreds of valuable local and international express shipments per week, was receiving a wage of Bs. 1500, or \$33. U.S. per month, after one year's service with the company. In Santa Cruz, where the cost of living is exorbitant, such a wage scarcely permits subsistence on the lowest level. Is it any wonder, then, that a man employed under such conditions fails to value his job highly enough to dissuade him from resorting to dishonest means in order to increase his income? If the budget of W. R. Grace & Co. prevents us from obtaining high-grade, satisfied personnel, then we must continue to hire and fire, at the expense of efficiency and prestige, around a diminishing nucleus of those rare employees whose ambition surmounts considerations of gain.

It is indeed discouraging to have to report that after a year's effort the development of Panagra's sales and service organization in Bolivia is still hopelessly handicapped by low-scale agency payrolls, and we cannot emphasize too strongly our contention that it is high time the matter was brought to a showdown. I am not exaggerating when I say that unless the Bolivian payroll is increased by at least \$2000. per month, spread over all twelve agencies, our organization stands in real danger of disintegrating. Such a figure will strike W. R. Grace & Co.'s comptrollers as an appalling expense which will create a prohibitive disproportion between the wage scale of employees engaged in Panagra work and employees engaged in the merchandizing line of W. R. Grace & Co.'s business, yet it seems difficult to get the idea across that the duties performed by a Panagra employee, down to the lowest counter clerk, demand a knowledge of complex procedures and above all involve individual responsibilities far and above other types of selling jobs. As an illustration, we need only cite the case of the express clerk at Santa Cruz, a low salaried, dissatisfied employee, who in committing a series of air express robberies has done irreparable harm to our public relations and prestige in Santa Cruz.

[fol. 983] The nature of our work calls for an intelligent, educated employee who in many cases must speak English. In Bolivia such a type comprises only a tiny fraction of the population, limited to the highest social levels, consequently in great demand by the government, banks, and all large commercial houses. So far we have been very lucky in obtaining a few exceptionally capable employees of the best type, boys who through ambition and a genuine interest in Panagra have stuck to their jobs with a loyalty well out of proportion to their wages, ~~yet any~~ one of these men can walk across the street and in twenty-four hours land a job with the Foreign Office, Hoeschild, Aramayo Mines, the U. S. Embassy, at double the salaries they are paid by Grace. Today the glamor is wearing thin. After two months' travel in the interior listening to a monotonous chorus of salary complaints at all our agencies, I have returned to La Paz to find that the situation in this office has reached critical proportions. Four of our men have announced their intention to resign within a month, while I have found specific cases of other employees deliberately slacking on their jobs in order that the company shall fire them, and in so doing pay the indemnizations required by law. Morale throughout Bolivia is deteriorating so fast that we shall need more than a prayer to hold the structure together in the coming months, and it is quite correct to state that if we were to lose three key men tomorrow, let us say Ballivian at La Paz, Miranda at Cochabamba, Pictor at Santa Cruz, our traffic organization would fold up overnight. This is a very real possibility. As one example out of many, Ballivian, chief traffic representative at La Paz, last week was offered a job by Aramayo Mines, Inc. at a salary just *double* the Bs. 3500 (\$75. U.Scy. per month.) he now receives. Ballivian, however, happens to be one of those rare people who have our company's problems at heart, so he refused the offer; but of course we can't expect him to display such gallantry indefinitely.

In taking this matter up with the local W. R. Grace management I expect to receive a very understanding response, and as in the past, several salary increases will be authorized. These increases, however, will be tied to the strict

budget scale set up by New York, with the result that token increases will be apportioned in small amounts just barely sufficient to persuade the employees that it may be worth their while to hang on a little longer. This won't do. For in another three months, the pressure of dissatisfaction will build up again, and we have gotten nowhere.

Fundamentally we are working against a time-honored policy of getting as much as possible for as little as possible, of squeezing payrolls down to a point where the organization will just get by on the lowest required minimum of efficiency. Thus our personnel structure remains one step behind the normal development of our business, and in [fol. 984] Bolivia, with traffic increasing month by month, promising the establishment of additional schedules in the near future, we are faced with a continuation of the uphill battle to adjust our agency payrolls to meet the growing demand. While we are spending thousands of dollars on airport expansion and technical equipment, our agency sales organization lags dangerously far behind, when a revision of policy, involving relatively low expenditures, can rapidly provide us with the quality of personnel we so urgently require.

I believe the local management of W. R. Grace & Co. are sincerely endeavoring to better these conditions, while forced to operate under a rigid expense control established by the executive offices in New York. The problem goes far deeper. It calls for a revision in our way of thinking, the abolishment of a wage policy which has brought W. R. Grace & Co. a very distasteful reputation throughout Bolivia. Until we adopt the theory that salaries must be calculated to give us satisfied, enthusiastic employees with *pride* in their jobs, we are simply fighting a losing battle.

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In order to round off my report on our traffic and service set-up, I wish to outline briefly our projected program.

Regarding agency personnel at Santa Cruz and Puerto Suarez, the volume of business at these points requires us to place responsible employees from our central offices in

charge, since it has been impossible to obtain sufficiently qualified local men. Chief of the Panagra section at Santa Cruz is Mr. John Piotor Blanco, formerly of our Cochabamba office. Working under him are five employees, natives of Santa Cruz, each with from eight to twelve months experience with the company. Within the limits of Grace & Co.'s wage scale, these men are the best obtainable, but like most Cruzenos, are basically lazy and unreliable. Add to this racial characteristic wage dissatisfaction which saps enthusiasm for their jobs, and you can understand why we have so far seen no possibility of being able to staff Santa Cruz and Puerto Suarez with 100% local personnel, where increasing traffic demands a first-rate organization.

In order to develop a more flexible organization in Bolivia, we plan to send our advanced employees from the La Paz office on six-month assignments to the smaller stations. Such a procedure is necessary, for example, at points such as Puerto Suarez and Santa Cruz, where the poor caliber of local employees requires us to place these offices in charge of trained men from La Paz or Cochabamba. Santa Cruz, beyond the robbery incident mentioned above, has been working excellently to date, but only through the efforts of Piotor, who has had to supervise and drive his [fol. 985] subordinates to a point where he has been carrying most of the weight on his own shoulders. By obtaining a small salary increase he has been willing to stick to the job, although overwork, illness from bad food, and the necessity to help support his family in Cochabamba makes it a tough proposition. No one-man show is a healthy condition, so that we must lend Piotor a well-trained assistant, and subsequently relieve him for another post, replacing him with two men from La Paz who will take charge of the office for a limited period. At the end of six months, these men in turn will be shifted, in line with a definite program which aims at giving our more promising personnel a broad background of experience on different sectors of the line. This is just wishful thinking at a time when we have little more than a skeleton staff to spread over our Bolivian stations, but we confidently hope, with a reform of agency policy, to build up a reserve of trained personnel at La Paz.

where a higher type of employee can be obtained. In order to send men from La Paz and Cochabamba on long-term temporary assignments to our interior stations, it is absolutely essential that special allowances be set up at these points. The exorbitant cost of all price necessities at Santa Cruz and Puerto Suarez, not to speak of the physically harmful living conditions, make it almost impossible to maintain an employee sent down from our central offices at his regular base salary. We have already encountered this problem in the case of Pieter at Santa Cruz and Knaudt at Puerto Suarez. Each have had their salaries increased in a small amount as an adjustment to their local expenses, but in consideration of the fact that an increase adequate to meet their demands would throw their salaries out of proportion to the normal scale upon return to their bases, the adjustment has remained only a half-way measure. Consequently the agency wage policy, as applied to temporary assignment of this nature, should be revised in accordance with Panagra practice over the rest of the system, which establishes the payment of special tropical allowances over and above the base salary, which should remain pegged to the average scale of periodic increases.

In order to perfect the coordination of agency traffic handling methods, it has been our purpose during the last months to centralize control of sales and service activities, insofar as possible, at La Paz, and we are pleased to report that much progress has been made in this direction. Copies of tracer radios relating to claims between agencies will be sent to La Paz for our supervision of procedure; TRF's, claim forms, and other traffic documents are now being funnelled through La Paz for our inspection before being sent on to Lima; we have set up an orderly system of monthly inventories as a means of controlling and supplying each agency with accountable forms and office supplies from a large reserve stock requisitioned from Lima and printed locally; Sago sales bulletins and tariff revisions are edited at La Paz and sent out in the form of simplified [fol. 986] circulars in Spanish adapted to our local requirements, while these in turn we are now consolidating in a revision of the Bolivian domestic traffic manual.

Our training program has been set up as follows. For the next six months and until we can develop equally qualified personnel, this work will be handled exclusively by Mr. Ballivian and myself, one of whom will be out on the line at all times. It has been decided that one should remain at La Paz in a supervisory capacity over all domestic traffic while the other is out on training work, and whenever possible both should not have to stand by together at La Paz for longer than two week intervals. This program recognizes the necessity for stopovers at the Sawtooth stations at least once every two months, and is based on the rule that only by constant, painstaking review and repetition of all fundamental traffic instructions can progress be made toward developing higher standards of service at our interior stations. There are obvious advantages in carrying out this program with two men working jointly. Supposing the job were confined to one man, he would have to lay over at La Paz several weeks between trips in order to catch up with local events and keep up to date on developments directed through Sago Lima. With two men working in rotation, we have a supervisor continually on tour, while his partner on duty at La Paz keeps him posted on instructions from Lima and at the same time transposes the former's reports from the interior into circulars for general distribution. Ballivian and I are coordinating our training schedules in such a way that one will be able to review and expand upon the other's work along the line, and we expect to make headway in the coming months by steady repetition of the type of first-hand treatment recently applied by the undersigned along the Sawtooth.

We are going to work on three important items relating to our Bolivian services. First, a study of proposed rate increases over the entire line, in accordance with LAB's petition to the government. Our tariffs should be drawn up ready for presentation just as soon as LAB's revisions have been approved. Second, an up to date survey of sales reported by all local agencies during the current year. Third, a study of space refusals and traffic growth in connection with the very apparent necessity for inaugurating a third transcontinental service in the near future.

Such is the rough framework of our traffic program for the coming months. We cannot, however, begin to carry it out until the personnel situation is drastically reformed, and to this end I feel it is important that you come up to La Paz as soon as possible, so that we can work on the problem at first hand.

(Sgd) A. C. POOLE

A. C. Poole

ACP

cc: Dr. Guzman Tellez
J.T. Shannon
New York
Sago

[fol. 987]

GOVERNMENT'S EXHIBIT 467

ROIG CARE
GRACE 10

to SANTIAGO (ROIG) feb 27, 1946
Spm

- 1 10 from A. Garni
- 2 for your information
- 3 Panagra
- 4 lima
- 5 will be
- 6 communicating
- 7 with you
- 8 concerning
- 9 reported
- 10 intention
- 11 avianca
- 12 open
- 13 own
- 14 office
- 15 quite
- 16 sentence ends
- 17 Grace
- 18 ecuador
- 19 anxious
- 20 preserve

21 exclusive
22 Panagra
23 Panair
24 agency
25 sentence ends
26 understand
27 avianca
28 quite
29 office
30 as
31 unit of
32 Panair
33 system
34 would
35 almost
36 automatically
37 have
38 same
39 agencies
40 which would
41 duplicate
42 office expense
43 and
44 deprive
45 Grace
[fol. 988]
46 ecuador
47 of cable 10 to Roig care Grace Santiago
48 sizable Feb 27, 1946
49 commissions
50 sentence ends
51 possible
52 solution
53 Grace
54 ecuador
55 have
56 agency
57 both
58 Panagra
59 and
60 avianca

61 but this
 62 requires
 63 consideration
 64 by Panagra
 65 plus
 66 avianca
 67 agreement

MR. GARNI

[fol. 989]

GOVERNMENT'S EXHIBIT 468

[Handwritten - Confidential
 H. B. Dean]

May 20, 1946

Messrs: Trippe
 Friendly
 Balluder

PAN AMERICAN GRACE AIRWAYS OPERATIONS

As a result of my recent trip over the lines of Pan American Grace Airways, Inc., I feel it necessary to make the following report and recommendations. Operations and traffic were well handled in Buenos Aires and Santiago, Chile and this is the only constructive remark that I can make in this report.

On arriving at Lima, I found that the entire operation and management were in a state of complete bewilderment and inefficiency. I talked at length with Captain Discher, Operations Manager, Captain James Walker, loaned by Pan American Airways as Technical Advisor to help straighten out the CAA difficulties, Mr. Goakes, local representative of the CAA, and many other department heads. As a result of these conversations, I believe that it is impossible for Pan American Airways to go along any further supporting the present management. By this I mean both the direction furnished through W. R. Grace and Company and the actual department heads in the airline itself.

On May 7th I spent three hours at the Limatambo Airport during which time there were continuously on the ground two DC-2's, nine DC-3's and one C-54. My inquiries into this situation were answered by various people in a most unsatisfactory and inconclusive way. Walker and Goakes both report that the airline is operated and managed in "country club style". There is no discipline, there is no leadership and, as a result, there is very little morale.

I had a long private conversation with Goakes in which he told me that on December 23, 1945, and again on April 30, 1946, he had written to the CAB suggesting that the management of Pan American-Grace Airways be taken away from the present operators and turned over to Pan American Airways. I requested copies of these letters but was advised that undoubtedly I could secure the same from Washington and that he felt it inappropriate to furnish them himself. The pilots have gone to Captain Walker and suggested that they unanimously refuse to fly for the airline [fol. 990] line unless the management is changed. Captain Walker advised me that he could get this expression in writing if I thought it would be helpful. I told him that it would be most unfortunate to have such an expression made formally at this time in view of the fact that there was considerable rumor and a second U. S. airline operating down the West Coast and that I would advise him later if we desired to have any formal action from this source. Mr. Goakes further stated that in his opinion the Grace agencies were "choking" the life of this airline through their complete control of traffic, purchasing and policy matters and that it was inconceivable that we, as half owners, should sit blandly by and take no action to protect our property.

As a result of my questioning about when we could expect to have the onerous CAA restrictions lifted—1,000 foot ceiling, two miles visibility, contact flying—Mr. Goakes replied that only this morning had two incidents occurred which made it impossible for him to make such a recommendation. The first was that he went through the pilots records and found that seventeen pilots were overdue—some as much as four months—on their regular six monthly

CAA pilot check and, secondly, that three months ago he had reported to the management that the standby power plant was not being adequately maintained so that it could operate in the case of an emergency. On May 6th the city of Lima had a power failure which resulted in a shut-down of all city power for three hours. When the standby unit, which the CAA requires to be maintained, was turned on, it failed to function and, as a result, there was no power at the airport during the period of the city failure. Mr. Goakes further stated that there were only three men in the whole organization who seemed to have any idea of how to conduct the operation of an airline or who he could depend upon to correct situations which were contrary to CAA regulations. These three men were Captain Walker, Captain Nelson and Captain Achilles. He further stated that the Chief Dispatcher of the airline resigned in December, 1945, and that, notwithstanding his continued requests, to date there had been no replacement and that there had not been a check of the dispatching system over the airline, outside of Lima, in years.

There were many other smaller matters discussed, all contributing to the reason for Mr. Goakes' refusal to remove present restrictions. As a result of my talks with others, I am convinced that Douglas Campbell is unsuited and incapable for the position which he holds. I am also satisfied that while Captain Discher is personally a fine man, he has not got the experience and the ability to hold the position of Operations Manager. I am further convinced that with Kirkland, Shannon and Vidal all in New York trying to run an airline from 4,000 miles distance, the results will never be satisfactory.

[fol. 991] I recommend that Pan American Airways immediately make known to W. R. Grace and Company their position with regard to continued management and supervision by them and that we insist upon providing at least three key men; namely, the Operating Vice President, Operations Manager and Maintenance Superintendent for the continued operation of this airline. The results of this inefficient operation are reflecting very seriously on the good name of Pan American throughout, not only Latin America,

but also throughout the United States and the public demand, as a result of this condition, for competition on the West Coast, is greater than I had ever realized.

HBD

Howard B. Dean

[fol. 999]

GOVERNMENT'S EXHIBIT 471

RM-153

ARRANGEMENTS WITH PARENT COMPANIES

July 23, 1948

Mr. J. W. Walker, Jr.
Pan-American-Grace Airways, Inc.
Lima, Peru

Dear Jim:

Herewith the following documents:

1. Memorandum Agreement regarding services rendered and to be rendered to Panagra by the Parent companies and compensation therefor. This agreement was signed on July 14, 1948 by Panagra, Panair and Grace.

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A. Transfer of Activities to Grace

The spirit of the agreements is that, aside from our Regional Manager's office, Panagra will not have on its payroll anywhere along the line any personnel other than that required for all phases of operations, namely Maintenance, Communications, Meteorology and Operations, including Passenger Service. In other words, any sales and promotion, accounting and other administrative personnel presently on Panagra's payroll (except for the Regional Manager's group) are either to be taken over by the Grace organization or eliminated.

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Since Panagra personnel are theoretically being taken over by Grace as of January 1, 1947, the question of Social Law reserves becomes somewhat involved, both as to the extent that the salaries of such personnel have increased since that date and as to the accrual to such reserves for services since that date. The only practical solution that we can think of is that either we make a liquidation with such employee and obtain from him a signed release, and collect from Grace the portion of such payments as pertain to longevity and salary increases made subsequent to January 1, 1947, or that we turn over to Grace the corresponding reserve as of January 1, 1947, and obtain a full release from Grace that all Social Law's liabilities will be covered by them on all employees taken over by the Grace organization. We recommend that the latter method be adopted since we believe this has been our policy in the past. The local attorneys in each country must, however, approve the method adopted. Naturally, no contingent reserves (such as dismissal payment reserve) would in any case be transferrable or payable to Grace or to employees.

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[fol. 1000] Mr. J. W. Walker, Jr.

Sincerely yours,

G. Vidal

GV:sd

Enc.

cc: HJRoig

DCampbell

TJKirkland

JTShannon

AJPhelan

WFLewis

[fol. 1009]

GOVERNMENT'S EXHIBIT 476

ABS Trip Series No. 8

W. R. GRACE & CO.

Hanover Square, New York

Harold J. Roig
Vice Chairman

New York, October 29, 1948
Santiago, 11-3-48

Andrew B. Shea, Esq.
Santiago, Chile

Dear Andy:

I was glad to note from your Trip Series No. 1 that Shannon and Mason have expressed themselves as "very well pleased with what has been done" in connection with the General Traffic agreement.

Now that that is on the rails, I would like to find a way to move in with equal effectiveness on the portions of the Three Cornered Agreement related to Grace financial control. While Panagra has always received assistance under this heading, it has not been as effectively organized under an overall plan as it might be. Vidal feels that very important results can be attained if this is done. The desirability for moving in on this in connection with our continuing drive to reduce expenses is obvious.

Some months ago Walker worked out, in a good deal of detail, a proposed outline of Agency functions including the functions under the heading of Financial Control. Correlated with these he prepared memorandum instructions for Superintendents of Stations and Station Managers. We have now modified all of these somewhat to pick up ideas of Vidal and Lanning. Copies of these memo- [fol. 1010] randa, as so modified, are enclosed. I would appreciate it if you could look them over and, if you think well of it, give copies to the Heads of our Houses concerned for their comments and suggestions. With these in hand we would then make necessary changes in the

memoranda and send them out as definite instructions. Do not, however, give these to the Heads of Houses until I cable you to do so as I want to check over the changes we have made with Walker first to be sure he is fully aboard. I am sending them along meanwhile to gain time in the mail in an effort to get the matter cleared before you leave the Coast.

What Panagra is getting at is obvious. They would like to see their expenditures in South America controlled in the same rigorous manner by the Agents as the Agents control their own business. This is easy to say but carrying it into effect without too much conflict between the Agency and the local Panagra management is not easy. Panagra is prepared to cooperate to the fullest extent to that end. It seems to me that the way to accomplish what we have in mind is to reach a clear agreement as to the points of control at which the Agents are authorized to intervene and then see to it that they are freed of all inhibitions and really do intervene effectively at these points.

Sincerely yours,

Rog

[61, 1011]

TO ALL AGENTS

Subject: AGENCY FUNCTIONS AND RESPONSIBILITIES WITH RESPECT TO PANAGRA

In an effort to avert possible future misunderstandings, we outline, as follows, our ideas of Agents' functions and responsibilities in connection with the handling of Pan American-Grace Airways, Inc.'s affairs:

1. Handling of governmental relations for Panagra, including contracts between Panagra and the various governments in South America.
2. Sales efforts and sales administration, in accordance with the General Sales Agency Agreement between Panagra and W. R. Grace & Co.
3. Handling of commercial problems and negotiations relating to the business phases of technical transactions.

4. All legal work.
5. Acting as commercial advisors.
6. Handling of all Panagra accounting work (excepting only maintenance and flight operations accounting at airports) including our collections and disbursements.
7. In matters of personnel policy, Panagra representatives will make the decisions, but will request the advice of the Agency in every case prior to taking action.

Personnel records, which will be maintained by the Agency, must be approved and initialled by the Station Manager at each airport. Payrolls, etc., must also bear the Station Manager's approval prior to their being sent by the Agent to the Lima office of Panagra.

The interviewing and employment of employees and "obreros" will be under the supervision of the Station Manager, or duly authorized Panagra representatives. In every case, however, the advice of our Agents will be sought. On the other hand, dealings with "Sindicatos" or governmental agencies will be handled directly by the Agency, with Panagra representatives in attendance.

[fol. 1012] In the case of dismissal of personnel, Panagra will consult with the Agency. When, after consultation between Panagra and the Agency, a decision has been reached to dismiss personnel, the Agency will sign the necessary papers to effect the dismissal. In all cases where an employee's or "obreros" connection with Panagra is severed for any reason, the Agency will handle all financial and legal details, including the calculation of amounts due the employee or "obrero" under social laws.

8. Agents will receive copies of Panagra's station budgets and are expected wholeheartedly to assist in controlling expenses at the airports. Panagra requests the Agents to watch these budgets carefully and to consult with Panagra regularly concerning any ideas

the Agents may have with respect to expenses at the airports. The Agents, of course, will control disbursements for airport expenses by means of the dual signature system presently in effect.

9. Insofar as it is possible, the Agents will inform the New York and the Lima Managements of Panagra of the activities of all competitors.

The foregoing outline is in no way intended to *limit* the activities of the Agents on behalf of Panagra. On the contrary, at all times, the Panagra Management expects and welcomes the suggestions and recommendations of the Agents with regard to any matter affecting the interest, welfare and development of Panagra. The main purpose of this memorandum is an effort to make clear the functions and responsibilities of our Agents and to further develop the existing esprit-de-corps between our Agents, on the one hand, and the Panagra Management, Station Managers and Operating Superintendents, on the other hand.

To assist our Agents in understanding fully our ideas regarding the necessity for complete cooperation on the part of everyone connected with Panagra, we attach copies of instructions which have been issued to our Department Heads, Station Managers, and Operating Superintendents on this subject.

[fol. 1013]

GOVERNMENT'S EXHIBIT 477

December 2, 1948

MEMORANDUM

Captain James W. Walker, Operations Manager for Pan-American Grace Airways in Lima, stopped in to say good-bye to me this morning as he is on his way back to Peru.

He told me that he had had several very frank talks with Mr. Roig during his stay in New York and that he had told Mr. Roig that the operation of Panagra was an abso-

lute disgrace as far as the cost and efficiency of the service were concerned. He pointed out the fact that they run five DC-6s, one C54, and a handful of DC-3s at the largest operating cost of any airline in the world.

He said that Lima should be nothing more than a line station such as Santiago or Balboa; that to have five vice presidents, a traffic manager and an assistant traffic manager and their staffs in New York was absolutely unnecessary; that it was only a question of a very short time before Panagra would lose cabotage rights in Peru, Ecuador, and Bolivia and that this would make Panagra's operation simply a Miami-Buenos Aires through flight.

He told Mr. Roig that he felt that the Grace Agency was milking the airline dry and the only solution he could see was to throw the operation into Pan American's Latin American Division as a subdivision of that operation; that because there were two stockholders there would have to be separate accounting for that operation but otherwise the entire show could be run out of Miami and the savings would be gigantic.

He said that Mr. Roig had listened to him very carefully but had made no comment. He also said that he did not know whether he would be fired for having made these remarks, but that his conscience would not let him continue in Panagra's service without doing so, and that if he lost his job he hoped that I would try to help him find another.

I telephoned Morrison and told him about this conversation and asked him to meet Walker in Miami on his arrival this afternoon and to have dinner with him. I suggested that he get detailed figures and facts from Walker and send them to me in a confidential memorandum.

Howard B. Dean

[fol. 1014]

GOVERNMENT'S EXHIBIT 478

PERSONAL

Limatambo
April 2, 1949Mr. Ernesto Aranibar
Grace & Cia., S.A.
La Paz, Bolivia

Dear Ernesto:

I am greatly perturbed over a report of an incident which occurred in your office about one month ago concerning the action of one of your employees in the handling of a reservation.

In the presence of Mr. Haro of our Lima office, your employee advised a prospective customer that no space was available on a flight scheduled from La Paz to Lima on the following day. On overhearing this remark, Haro, who was aware that space existed on the trip in question, intervened and saw to it that the customer was given correct information.

Your employee gave as a reason for stating that no space was available that the papers for the flight were already closed and that it would be too much trouble to re-open them to include additional passengers.

Naturally, this is not the type of service we want to give to the public, nor the service which results in the greatest possible revenue for the Company and, for that matter, your agency.

. . .

This subject has become particularly pertinent in view of the preoccupation which already seems to exist concerning our reservations procedure within Bolivia. Naturally, no procedure is any better than the people who manipulate it and, as a consequence, we cannot emphasize too greatly

the importance of having it handled by our very best and most competent employees.

With kindest personal regards, I am

Sincerely yours,

John T. Shannon

JTS:mfl

cc: DCampbell

JWWalkerJr

[fol. 1015]

GOVERNMENT'S EXHIBIT 479

JTS-NY-21

QUITO, Ecuador
April 22, 1949

Mr. D. Campbell
Pan American-Grace Airways, Inc.
New York

Dear Doug:

This will confirm our telephone conversation of yesterday in which I suggested that you again approach the proper officials of W. R. Grace & Co. in New York in an endeavor to secure action on the filling of two important posts in their Panagra Sales organization in South America.

Several months have elapsed since there was a head to the Panagra sales section in the Agency in Lima. Actually, the last man who filled the post only worked for a few months and you might say was really ineffective. Hence, to be realistic about it, we can say that there has not been a proper head to this section since it was decided that Braman would not be taken over by our agents. This is very unfortunate since Lima is now the most competitive spot on the line and one where our competitor is gaining ground every day.

Mr. Aranibar wrote to W. R. Grace & Co. in New York stating that he was ready and willing to take on a young

American to strengthen the Panagra Sales section of his organization in Bolivia. Since writing this letter he has not heard from New York and apparently no action has been taken to fulfill his request.

Even disregarding the competitive angle for a moment, I feel that the posts described should not be allowed to be vacant and taking into consideration the competitive angle which cannot be ignored, filling them becomes a "must". The man for Lima is, of course, the more urgent of the two.

I know that there must be very good reasons why proper action has not been taken with regard to this matter, how-
[fol. 1016] ever, I feel that the time has come now that we must again bring it to the attention of our General Sales Agents for South America in the most forceful manner possible.

Sincerely yours,

J. T. Shannon

JTS/bs

cc: HJRoig
GVidal
TJKirkland
CdeGroot

[fol. 1017]

GOVERNMENT'S EXHIBIT 480

April 27th, 1949

MEMORANDUM TO MR. SHEA

One thing to be remembered in this mail pay case is the fact that 7,100,000 revenue passenger miles (which as you will recall is the top figure on which we get the 4.35¢ mail pay) means a load factor on the basis of available seat miles flown in 1948 of 47%.

We have often discussed the fact that every one percentage point drop in revenue passenger load factor means a drop of \$4,000 a week or about \$15,000 a month in revenue. This will still be true for every drop in load factor down to 47% but from there on down we will be losing

not only the \$15,000 a month in commercial revenue but also \$6,500 in mail pay, so the one-percentage point drop below 47% means a drop in revenue of \$21,500 a month or approximately \$5,000 a week.

"In other words, we get more mail pay with a load factor of 47% than we do with a load factor of anything below that so we have a double reason not to have our load factor go below 47%—commercial revenue and mail revenue."

The formula in the mail pay case seems to me to be a severe detriment to lowering passenger rates since not only would you lose all the revenue involved in such reduction [col. 1018] but you *might* increase the number of passengers carried by lowering the rate and therefore lose mail pay.

This case gives every incentive to increasing passenger rates to the point where we would get the maximum commercial revenue and still have 7,100,000 revenue passenger miles per month less than we now have.

miles per month, i.e. about 2,000,000 revenue passenger

J.P.G. Jr.

[col. 1019]

GOVERNMENT'S EXHIBIT 481

JTK TRIP SERIES NO. 66

AIRMAIL

NEW YORK, August 26, 1949

J. T. Kirby, Esq.

BOGOTA, Colombia

Dear John,

HANDWRITTEN
(no copy available)

Enclosed is copy of Mason's report on Santiago. As you may know, we instructed him, a short time ago, to proceed to Buenos Aires, Santiago, La Paz, Lima, and Guayaquil to exert every effort personally, and working with our own

offices, to reverse the serious downward trend in our load factors which has been evident for the last two months.

As a result of his recommendations and those of our own office we authorized, while he was there, a reversal of the tariff policy put into effect a short time ago of collecting all southbound passages in dollars as it was very evident that this was causing serious inroads into our movement and was starting to build up BSAA movement to the U. S.

As you will see from the enclosure, Mason devotes the major part of his letter to comments on the sales effort of our Santiago Organization. Unfortunately, assuming, of course, that his facts are correct, it appears that we are open to very serious criticism because of the failure of our [fol. 1020] Santiago management to remedy any of the outstanding defects in our handling of Papagaya traffic and sales promotion which we all have known for some time existed in Santiago. For example, on page 5 of his letter Mason says "During July our solicitation fell off sharply and the records show fewer calls being made each week. During the week of July 25th to 30th, according to the reports, there were no official solicitation calls." Mason says, however, that this situation has improved in August and that the salesmen are now attempting to contact eight clients every day.

He further says that the card files for direct mail and solicitation purposes were not completed and when he arrived there only 300 cards had been made out, while more than 5,000 names of firms and individuals, clients and potential clients, were waiting transfer from the various lists to the cards. He says that only one passenger direct mail letter with a circulation of 1,200 and one cargo mailing piece with a circulation of 400 have been sent out to Santiago clients all this year. Further, he says that new sales stationery was designed by J. Walter Thompson in Buenos Aires, and the mats are in Santiago but the letter heads have not been printed. There are other comments which you will read, but I have mentioned the foregoing

particularly as they emphasize very sharply the lack of the [fol. 1021] intensive, active sales and solicitation effort which Panagra must have in the face of the increasingly sharp competition we are meeting in all countries.

Aside from the specific criticisms made by Mason (and, by the way, he praises very highly the public relations and free newspaper publicity we get there), the conclusion to be drawn is, of course, an obvious one and that is, that our responsibilities as Panagra's general sales agents are not being discharged in a way that is at all satisfactory and that the outstanding deficiency is the lack of top direction and management.

Yours very truly,

(sgd) A.B. SHEA

Enc.

(written in by A.B.S.)

John: Shannon told me you were fully cognizant of these matters and are in the process of correcting them. The trouble seems to be that Koch and Davila promise a lot of things and don't come through with them.

Best regards,

A.B.S.

[fol. 1022]

GOVERNMENT'S EXHIBIT 482

MEMORANDUM

To:	Vice President	From:	General Sales Manager
Dept.	Traffic & Sales	Dept.	Sales
Location	New York	Location	New York

Date: March 3, 1950

Subject: SOUTH AMERICA—PASSENGER FARES

Reference:

With reference to the enclosure which you gave me yesterday, I believe you will be interested in the following in-

formation which explains why Panagra's rates are on the high side. My comments are based on the nine years during which I was General Traffic Manager of Panagra, and I request that you treat them as confidential.

1. Historically it has been the policy of W. R. Grace & Company to follow a high tariff policy with respect to Panagra. This policy was maintained during the nine years that I was connected with the company, and from all indications there has been no change to date, although I believe that Panagra's new president and several of its officials are now in a receptive mood to at least consider a modification of this policy.
2. It is interesting to note that Panagra's high rates are in those areas where historically Panagra has not been confronted with local competition. Also please note that the high rates correspond to Panagra's operations across the Andes, the reason for this being that payloads used to be restricted for operating reasons and rates of surface carriers were also high for the same reason. This explains the lopsided tariff which Panagra now has, with rates ranging from a high of 26.04¢ per mile to a low of 3.78¢ per mile.
3. Panagra has participated in through rates with PAA, but here again the competitive factor has always been the primary reason for so doing. Also I can recall many instances when Pan American was unable to go through with a rate program—at least carried out to the extent desired—because Panagra's management was unwilling to make full reductions. On the other hand, Panagra initiated a rate program and was the first to establish commodity rates as far back as 1936 and long before Pan American got into the picture. In fact, Pan American was not interested in establishing through [Vol. 1023] commodity rates, so Panagra was forced to restrict such rates to its own routes.
4. In the past Panagra has also been somewhat reluctant to take its share of reductions where through rates have been considered, but I see no reason why this

policy should be continued as there is no reason at all why Pan American should maintain a lower rate structure than Panagra on through rates.

To summarize, Panagra's past policy has been indicated by W. R. Grace & Co. on the basis that high rates should be maintained, with few exceptions.

John E. Muhlfeld

JEM mil

J. E. Muhlfeld

[fol. 1024]

GOVERNMENT'S EXHIBIT 483

July 11, 1950

MEMORANDUM TO MR. HOWARD L. CLARK

Subject: BOLIVIA—PANAGRA OFFICE

With reference to your request I herewith submit the following memorandum on the Bolivian office.

1. It was my understanding that the sole reason for inaugurating DC 4 service into Bolivia in this particular instance was to combat our competition. Actually what has been accomplished up to date has been to offer the traveling public two additional days DC 4 service to Lima with connections to the North.

As a result we still do not know actually how strong Braniff really is. If a potential traveler wants to leave for Lima on the day when we have a DC 3, and our competitor has a DC 4, it is almost impossible to sell. It is the old story, two engines versus four engines.

You asked me why we lost so many passengers to Braniff. One of the main reasons especially during the rainy season, is the fact that the DC 3 flying the Jungle Run east of Santa Cruz due to weather, would be anywhere from three to twentyfour hours delayed enroute and the majority of passengers booked with us would cancel and have their tickets endorsed over to our competition. I understand that this situation will be remedied somewhat

due to the fact we are now flying into Santa Cruz and turning around there the following morning with DC 4.

2. The two travel agencies that we do business with (Exprinter and Tur-Bol) have repeatedly expressed their complete dissatisfaction with the way they have been treated by Grace in Bolivia. They maintain that the Grace Company is in open competition. Mr. Keiler, of Tur-Bol [fol. 1025] and Mr. Hecksner, of Exprinter, have told Mr. McCoun of that treatment, and I know that they sent a very strong cable of protest to Mr. Masson of Lima. I understand a letter from Mr. Shea to the Grace office in Bolivia explaining and clarifying the Grace Agency situation was sent, but I am sorry to state there is still quite a bit of bitterness left. It is my firm opinion that unless this situation is immediately rectified the travel agencies will end up by giving Panagra as little business as possible. One of their main complaints is that we contact the passenger that they have already booked on a purely social and personal basis and have passenger cancel with the travel agency and make the reservation with us. When one passenger asked the Grace management what the difference was with who he made the reservation with as long as he was traveling Panagra, the answer was that we get the full commission. The agencies are being run by German-Jewish refugees, and a good percentage of the people who travel in Bolivia fall into that category. I know that Mr. Hecksner of Exprinter is still quite bitter. On the Cochabamba-Santa Cruz highway, which was awarded to MACO Pan Pacific Construction Company, Hecksner became very friendly with a Mr. Thompson and also a Mr. Abbot of the above company. Before I left he told me he was going to obtain an exclusive on handling all of MACO's transportation needs, and he was leaving for Los Angeles to discuss this further with them. I don't know if he has left or not as yet. This movement I understand involves round trips from the western part of the United States of some 150 technicians. With a volume of business of this magnitude and Mr. Hecksner feeling as he does toward us, You can readily see how ticklish this situation could develop into.

[fol. 1026] Another sore point with travel agencies is the fact we do not issue them our tickets so they may make them out right on the spot for their customers. They claim we do not trust them. This again creates a very unfavorable opinion for us, in view of the fact that Braniff does issue tickets, and we do also in every other office with the exception of Bolivia.

5. I realize that the following subject is very ticklish at best. Quite a few of the Americans on the various missions resent pressure tactics employed by Dr. Elio. The case I recall particularly was that of Mr. Arthur Jenkins, formerly of the CAA mission. Mr. Jenkins preferred to travel to Lima on several occasions with Braniff. Dr. Elio has seen and talked to Mr. George Benson, Chief of the mission in an effort to find out the reason for Mr. Jenkins preference. Mr. Benson talked to Mr. Jenkins who in turn told me about it and he very much resented that he was being questioned as to his preference in travel. I have heard the same story from several other people to the point where some individual groups flatly refuse to do business with Panagra in the Grace office. If they fly with us they will do so only through travel agencies.

[fol. 1027]

GOVERNMENT'S EXHIBIT 434

JTK/RS Series
Letter No. 225

NEW YORK
June 27, 1951

Mr. Raul Simon
SANTIAGO, CHILE

Dear Raul:

PANAGRA LIQUIDATIONS

We have carefully reviewed the contents of your JTK/RS Series letter #597 of June 8th, and our comments are as follows:

You state that as of March 1st Panagra was indebted to you to the extent of 583,000 pesos. Panagra advises that Lima's books on February 28th showed a balance against you of 743,000. What are the items making up the differential of 1,326,000 pesos, and what was the correct balance as of February 28th? Panagra has instructed the Lima group in the future to analyze and dispose of pending items promptly after the close of each month, and Lawder solicits your cooperation under this heading.

Panagra and we agree that outstanding accounts representing uncollected sales need not be remitted to Panagra until actually collected, to the extent that credit has been extended in accordance with Panagra's written concurrence. If you desire, it will be in order for you to adjust February and subsequent remittances to conform. Panagra suggests [fol. 1028] that a separate current account be opened to include credit sales approved by Panagra and not subject to be remitted until collected. Do you concur?

You advise that March sales can be broken down as follows:

Dollar fare travel	4,167,000 pesos
Peso fare travel	7,292,000
	<hr/>
	11,458,000 pesos

According to Panagra's records, dollar fare travel amounted to 9,029,000 pesos during March, and only the balance represented peso fare travel. We suggest that you verify your figures and then adjust your March remittance accordingly, submitting full details to Panagra both in Lima and in New York.

On the subject of buying and selling exchange rates, in our JTK/WFK Series letter #335 of March 29th, we expressed our views as follows:

"As for exchange rate differentials, it appears to us that since Panagra could cover its entire peso disbursements by means of its peso collections, the average daily rate for the month used for the conversion of Panagra peso disbursements into dollars

should be based upon the daily buying rates (actually used during the month for the conversion of Panagra peso collections into dollars) rather than on the daily selling rates (applicable to the purchase of pesos with dollars). Otherwise Panagra would be subjected to an unjustifiable exchange loss caused by the spread between buying and selling rates."

So long as its peso collections exceed its peso disbursements, Panagra could not be expected to agree to the conversion of peso collections into dollars at the *selling* rate of exchange, and to the conversion of peso disbursements [fol. 1029] into dollars at the *buying* rate of exchange, only to incur an exchange loss. Panagra would simply apply peso disbursements against peso collections. The Grace Line situation is different, for they are faced with large peso disbursements and they have practically no peso collections to cover them. We see no basis for comparison between Panagra and the Grace Line.

The plan developed last February in connection with Panagra peso collections and disbursements was intended to be of benefit to the Grace organization. In other words, by converting Panagra peso collections into dollars—as is currently being done—it became possible to provide additional profit cover for the Chilean territory to the extent that we collect dollars from Panagra in New York for peso disbursements you make in Chile for their account. It follows that any exchange differentials should be absorbed by Grace and not by Panagra, and we do not understand your reference to your being penalized under this heading.

Very truly yours,

Original signed by J. T. Kirby

[fol. 1030]

GOVERNMENT'S EXHIBIT 485

Enroute Recife/Rio de Janeiro
September 26, 1951

MEMORANDUM TO MR. ANDREW B. SHEA
PANAGRA

I consider your letter of September 17th to Jim Walker concerning the program to continue Panagra as the "World's Friendliest Airline" a masterpiece of administrative direction and encouragement.

On this program and reputation, in my opinion, stands or falls the good-will that Grace hopes to obtain from Panagra.

J.P.G. Jr.

[fol. 1031]

GOVERNMENT'S EXHIBIT 486

PG TFW SERIES
NO. 93

NEW YORK
November 25, 1952

Mr. T. F. Williams

BOGOTA, Colombia

SALE OF SALTINES TO PANAGRA

Dear Frank:

Further to my letter No. 86 and to your No. 84, we are, of course, most interested in continuing to sell saltines to Panagra and it would therefore be interesting to follow up with Panagra, presumably through Manuel Arevalo, the fate of the 17 cartons recently sold to them and get an idea, if possible, of what their monthly requirements will be.

Andy Shea's memorandum to me of November 14, a copy of which was sent to you, of course, speaks for itself and

it is perhaps needless for me to say to you that I feel all concerned, including myself, are most anxious that La Rosa get the business and we do not want Panagra to take their trade elsewhere nor give it to Arturo Field in view of previous experience.

Very truly yours,

J. H. J.

cc: Messrs. Grace
Shea
Latorre

[fol. 1032]

GOVERNMENT'S EXHIBIT 487

MEMORANDUM

FOR USE BY
ADDRESSEE

SEND ORIGINAL BY

TO Vice President

FROM Reg. Traffic/Sales Mgr.

DEPT.

DEPT.

OR DIV. LAD

OR DIV. Latin American

LOCATION Miami

LOCATION Lima, Peru

9259-00291E

DATE: February 21, 1953

SUBJECT: REPORT #26 February 1-15

REFERENCE:

Copy forwarded from Exec VP
Morrison's office to:
VP Alvin Adams-NYK

CONFIDENTIAL

PANAGRA-GRACE REORGANIZATION

It has been noted in a previous report that I felt that the Panagra-Grace office in Santiago was lacking in basic

organization, delineation of individual duties and supervisory procedures. I was extremely happy, therefore, to find on my recent trip to Chile that Mr. Don Huff of the Panagra staff in NYC had been sent to Santiago to assist in setting up an organization chart for this office and to establish efficient sales office procedures. Mr. Huff had done a similar job in Lima which would have shown excellent results if the Panagra-Grace officials had carried out his plans and ideas. Even so, his Lima re-organization permitted the elimination of at least six employees from the payroll without hardship or loss of effort whatsoever. Mr. Huff has had a wealth of experience in this type of work and if Mr. Brunson and Mr. Burke will continue his good work I am certain that all of us will benefit.

The amazing thing to me is that in all of these Grace offices there is practically no way that officials of Panagra can insist that their plans and ideas be carried out. The chain of authority is so long in numbers of people, in files of correspondence and in geographical distances and the follow up is so uncertain and so unco-ordinated that a person like Mr. Brunson in Santiago and Mr. Velarde in Lima can show complete unconcern towards any plans for suggestions submitted by a person like Mr. Huff unless these happen to strike their fancy at that particular moment.

[fol. 1033] I am attaching copies of the functional and personnel assignment charts which Mr. Huff prepared for the Panagra-Grace organization in Chile. I feel that all System offices should be set up in this manner to achieve maximum efficiency of personnel and materials.

CHILEAN AGENCY SALES 1952

Attached is a summary of sales made by Chilean travel agencies in 1952.

Juan Homs, Jr.

Juan Homs, Jr.

JH/ba

Attchs:

cc: VP Traffic/Sales NYC

Traffic/Sales Mgr. LAD-Miami

[fol. 1035]

GOVERNMENT'S EXHIBIT 489

March 4, 1953

CONFIDENTIAL**NOTE TO: DIVISION MANAGER**

You will recall that a year or two ago we were endeavoring to assemble evidence which might support the contention that the other ownership interests in Panagra exercised undue control and influence over their policies even to the extent of being detrimental from the standpoint of a purely airline operation.

As this subject tends to flare up from time to time, the attached piece of evidence may be of interest to the top levels of our company. You will note that this evidence consists of a routine reservations and VIP teletype message in which it is indicated that a flag stop will be made at Antofagasta, Flight 300 March 30, to pick up the Executive Vice President of Anaconda Copper per okay by Grace Line, New York. Anaconda Copper, of course, is an important ore shipper on the Grace Line.

A check has been made to see if the okay for the flag stop might be tied in with a minimum revenue figure, but apparently this is not the case and it is clearly the case of the airline effecting a flag stop to pick up an executive who is important to the steamship company.

M. J. Martinez

M. J. Martinez

Encl.

cc: Exec. VP—LAD

[Ed. 1037]

GOVERNMENT'S EXHIBIT 491

HRH = 534

NEW YORK,
September 3, 1930.

Mr. H. R. Harris, Vice President,
Pan American-Grace Airways, Inc.,
Lima, Peru.

Dear Mr. Harris:

With regard to the Delfino representation in Buenos Aires, Panair has made us an offer to represent us through the Alas Company at a cost not to exceed the 15,000 Argentine pesos guarantee offered by Delfino.

Under ordinary circumstances this would be attractive because it would obviate the necessity for having two associated Companies in the Argentine with different headquarters. Unfortunately, your opinion of Mr. Summers, who, I understand, would be the active head of Panair's activities in the Argentine, makes us unwilling to have our Company occupy a position in which in any conflict of interests a man would be in charge of the joint operations who was not in sympathy with Panagra.

A number of things have happened which would seem to bear out your opinion that Summers will never give Panagra an even break.

A final decision of the Delfino proposition has been held pending, therefore, so as to give Mr. Roig another opportunity of discussing the matter fully with Mr. Trippe. I shall keep you advised as to the final result.

Very truly yours,

PAN AMERICAN-GRACE AIRWAYS, INC.

J.D. MacGregor
Vice President & General Manager

JDM/Q

GOVERNMENT'S EXHIBIT 492

PANAGRA

Pan American—Grace Airways

Cable Address

All Offices

"PANAGRA"

Lima
Grace Bldg
Casilla 2488

HRH # 223

Lima, Peru
September 11
1930Pan American-Grace Airways Inc.
New York

Dear Sirs:

Receipt is acknowledged of your HRH # 534 on the subject of our possible representation in the Argentine by the Alas Company rather than Delfino. It impresses me that it is not desirable for us to be represented by Alas until we are convinced that Alas will give us genuine representation and not use their appointment as an opportunity to stifle our business. Whether or not Mr. Summers or any other Panair representative would give us the proper type of representation would depend entirely upon the instructions which the Alas Company received from Panair. Consequently the decision should be entirely based on the actual attitude which Panair will take toward us. If there is to be competition in passenger, mail and express between PAN AMERICAN-GRACE AIRWAYS INC. and Panair in serving Buenos Aires we should under no circumstances be represented by Alas. On the other hand if there is a definite allocation of traffic between PAN AMERICAN-GRACE AIRWAYS INC., Panair and Alas, which is satis-

factory to us, there is every reason to have Alas as our representative instead of Delfino.

Very truly yours,

PAN AMERICAN-GRACE AIRWAYS INC.

H. R. HARRIS

CBR

Vice President

HRH/CBR

air mail copy

cc to Panair, N. Y.

Grace, N. Y.

Dictated but not read

[fol. 1039]

GOVERNMENT'S EXHIBIT 493

LIMA, May 31, 1932: PERSONAL #596

Mr. J. D. MacGregor, New York.

NYQUIST

Dear Mac,

With reference to Mr. Vidal's letter to Panagra, New York, #96 of May 20 on the subject of agency fees at B. Aires, I note that he recommends Nyquist be sent back from B. Aires to Santiago. I do not agree with this at all since I feel that we must always have a competent Panagra man at B. Aires to keep us thoroughly informed of any Panair schemes which may develop and which we would have no knowledge of otherwise. I feel that the reason we have such a good arrangement at present is because of the effective work which Nyquist has done and am sure that we will again have trouble if we pull Nyquist out of B. Aires. I am not referring in this letter to operations problems but to the general Panair Panagra background in B. Aires.

H. R. Harris

Harold R. Harris

HRH/FL

cc Mr. Vidal

" Shannon

[fol. 1040]

GOVERNMENT'S EXHIBIT 494

Pan American-Grace Airways, Inc.
122 East 42nd Street New York, N.Y.

Cable Address

Private #102

ORIGINAL AIR MAIL LETTER

Copy Follows By Steamer

NEW YORK.

June 2, 1932.

Mr. G. Vidal,
SANTIAGO.

MR. OSCAR I. PEZET

As I cabled you today, I have just received a letter from Pezet stating that he has been hired by Rihl and yourself as contact man in Buenos Aires. This is something which should have been definitely referred to New York.

I received your cable asking whether I would recommend the employment of Pezet at a salary of 800 Argentine pesos per month. This cable was received the same day of the Directors' Meeting and was handed to me after the Meeting. I did not reply to the cable, but by next airmail I wrote Mr. Harris, with a copy to you, stating what had been done in the Directors' Meeting and informing you by means of this letter that I had been asked to make a Budget for the Argentine to cover the employment of two contact men. Although I do not think that I shall have any difficulty in confirming your actions, I would suggest that before committing yourself at any time, you await definite approval [fol. 1041] from this office.

In the case of the Buenos Aires personnel, you, of course, understand that the employment of Pezet is an additional expense not contemplated in the agency fee, and for that reason I presume you have already arranged with Rihl the proportion of the salary which should be assumed by

Panagra. I may state that even if you and Rihl agreed to a 50-50 split, I do not believe Mr. Trippe will agree to it. Mr. Trippe will consider the salary should be split on the basis of sailings and arrivals, that is, 2/3 Panagra and 1/3 Panair. That is another reason why I did not want to commit myself until I knew what percentage Panagra would have to assume.

I presume also that Pezet is hired and paid by Panair and is now an employee of our Panair agency. If this be so, I presume you have thoroughly explained to him the relations of Nyquist to the agency and the fact that Panagra operates as a separate entity with separate officials and separate organization. An explanation of this kind is due Mr. Pezet because, otherwise, he may think that Mr. Rihl or any other of the Panair officials can instruct him to travel on Panagra-planes. Pezet should be thoroughly advised that matters pertaining to Panagra should be cleared through Nyquist. I am sure you see my point.

J.D. MacG

J. D. MacGregor.

JDM/Q

[Vol. 1042]

GOVERNMENT'S EXHIBIT 495

PERSONAL = 370

NEW YORK

July 6, 1932

Mr. H. R. Harris,
LIMA

My dear H.R.:

**PANAIR FACILITIES AT MONTEVIDEO
AND BUENOS AIRES.**

....

Mr. Trippe is still unwilling to concede that we should go fifty-fifty on expense and propaganda in the Argentine. He is sticking out for two-thirds for Panagra on the basis

of scheduled sailings. To my insistence that the fifty fifty deal is equitable because we have no control over the expenditure of the Panair office at Buenos Aires, he replies that if I consider the Panair office expenses too high a budget can be appropriated and jointly approved reducing these expenses to what we consider a fair figure. I wish you would, in your next visit to Chile, discuss with Shannon what it should cost us to run our own office at Buenos Aires. This would contemplate transferring the accounting to Santiago and maintaining Buenos Aires as a representation and traffic organization only. It seems to me that with Bradley, Nyquist, Pezet, Schurz, and Miss Grinham, we could carry the office along and not lose traffic. I should like [fol. 1043] to know whether the payment of 50% of Bradley's services and two-thirds of the salaries of the other employees mentioned, together with two-thirds of the office rent and general expenses would not be quite considerably less than \$750, U.S.G. per month. Will you please advise.

J. D. MacGregor

JDM:G

[fol. 1044]

GOVERNMENT'S EXHIBIT 496

Pan American-Grace Airways, Inc.
122 East 42nd Street, New York, N.Y.

Cable Address

ORIGINAL AIR MAIL LETTER

Copy Follows by Steamer

SANTIAGO, December 8, 1932.
PERSONAL, #1055

Mr. J.D. MacGregor, New York.

B. AIRES SITUATION

Dear Mac,

Herewith you will find copy of letter I have written today to Geo. Ribl, which is somewhat rambling but almost self-explanatory.

I trust that you will be able to give this serious consideration, particularly with regard to the business of moving Shannon over to B.Aires, which strikes me as being a fine idea if a sale can be made of the scheme to Panair and Grace. My thought is that we would move our whole Southern Division headquarters to B.Aires, leaving Grace, Chile, to handle Chile in the same way that Guayaquil Agencies Co. handle Ecuador. It would, of course, be necessary for us to put a good operating man in Santiago, possibly Farris, who would naturally be under Shannon.

The accounting system I have mentioned to Rihl is really a keen thing, and although it may not be possible to put it into our organization, at the same time I know you will be very much interested in observing what can be done with this punch card system of recording and accounting.

HRH:FL
enc.

Harold R. Harris

Harold R. Harris

[fol. 1045]

SANTIAGO, December 8, 1932.

Mr. Geo. L. Rihl,
Panair do Brasil S.A.,
Rio de Janeiro.

Dear George,

My recent visit to B.Aires has impressed me more than ever with the disorganization of the joint set-up, at that point. There seems to be misunderstanding and friction of a more or less serious nature between the various department heads, and there is apparently no centralized control of any movements or work of the personnel. I may be quite wrong and all may be lovely, but it impressed me that Bradley, who apparently considers himself to be the chief executive of the entire organization, is quite incompetent to handle any such important position, and is completely overcome by the sense of his own importance. In our own business we could not for an instant tolerate any such

office hours as Bradley keeps. He never arrives in the office before 10.30 am., and more often 11 am., and leaves promptly at noon, to return at or after 3.30 pm. in the evening, usually later. I agree that he has outside contacts which he is able to take advantage of in the evening, and I presume that occasionally he has similar contacts in the morning before he comes to the office, but you and I also have contacts which we take advantage of in the evening without interfering with our regular business day. You may think from the above that I have some personal prejudice toward Bradley—quite the contrary, but I do feel that he could spend a reasonable time in the office and accomplish a great deal more than he is now accomplishing. In addition to the fact that the presumed general manager of the B.Aires set-up is not on the job, I feel that even if he were on the job he is not competent to handle the problems which present themselves, in a first class manner.

It seems to me that we might consider very seriously the question of a completely new set-up in the Argentine. One possibility which appeals to me is a combination of joint Field Manager, a scheme which you have previously suggested, with a General Manager idea for the joint office. It seems quite feasible, if Panair will agree to it, to have the Division office of our Southern Division moved to B.Aires from Santiago, in which case it would be possible to put Shannon in charge of the joint office at B.Aires, in addition to his Division duties with Panagra. Naturally I have not had an opportunity to discuss this matter with Mr. MacGregor yet and do not know what his reaction would be; he might have some very real reasons for not desiring such a shift. I feel that Shannon is quite competent to either make Bradley work, or make him resign under pressure of the work which he would be required to carry out, our requirements being met by either result in the long run, since we have either got to get work out of Bradley or get rid of him. In addition, the junior members of [fol. 1046] the staff, who are now working pretty well up to capacity, particularly Moore and his crowd, would be assisted and encouraged in their work, and their work coordinated with the other work of the office in a way which may now be lacking.

In addition to the institution of a joint manager scheme similar to the scheme which fell down so badly when it was attempted with Summers, we would have in Shannon a man who had had complete experience with NYRBA background, and could in any emergency handle either land planes or seaplanes for either company, being thoroughly familiar with the operations in both directions.

There seems to be a general feeling among our friends in the Argentine who are not in any way connected with the Company, that we do not have a sales organization, but rather the attitude of accepting any business which is offered us. I know you have given this a great deal more thought than I have, and it would seem that if we are to build up a selling organization we should either pay our present employees more, so that they can take their place among the class of society which is financially able to use air transportation, or else we should get rid of our present low price employees and take on people who would be paid a higher figure and who are already accepted socially in the proper spheres. There are, of course, any number of well connected Anglo-Argentines who might prove satisfactory for this work, but I feel that no change of this sort should be made until after a very exhaustive study of the background of the individual or individuals whom we have in mind, in order that no errors be made in selection of proper personnel.

.....

Warm personal regards,

Sincerely,

HARRIS

1204

[fol. 1047]

GOVERNMENT'S EXHIBIT 497

PERSONAL 829

1055

Personal

BUENOS AIRES SITUATION

NEW YORK

December 20, 1932.

Mr. H. R. Harris,
LIMA.

My dear H.R.:

Thank you for your personal letter #1055 of December 8th and for the copy of your letter to George Rihl of the same date.

Your idea of moving the whole Southern Division headquarters to Buenos Aires, leaving Grace & Co., Chile, to handle our Chilean business on a purely agency basis is, of course, not new to me as I have had the thing in mind for some time. The reason I have not written you about is because I wanted to find some good reason for making the change. As a rule, in these matters, we only have one section of the Board to contend with. In a scheme of this nature, I would have to buck both divisions.

Grace & Co. would undoubtedly oppose the scheme through a fear that their influence in our southern picture would be minimized beyond even the present almost vanishing point. They would, of course, not oppose, I think, the transferring of Shannon to the Argentine, because, as you know, they have never been pleased at having Shannon in Santiago, but they would undoubtedly say that the transferring of all the people who are at present working 100% for us, even although not on our payroll, would involve the leasing of an expensive office in a country in [fol. 1048] which their influence is not great, and would involve other expenditures foreseen and unforeseen.

Panair, on the other hand, would say that by an inter-Company agreement *it* is the prominent factor in Buenos Aires and that if it is felt, and if George Rihl agrees, that Shannon would be a good man to be placed in Buenos Aires as manager, he should be transferred to the Panair payroll and we would be charged $\frac{2}{3}$ of his salary on the basis of sailings. Grace & Co. would say, as they have already said, that if we pay $\frac{2}{3}$ of the expenses of the Buenos Aires office, we should run the office.

These are just some of the things that occur to me and which will give you an indication of the situation I would have to confront. I wanted, therefore, to let this year pass and liquidate our accounts with the parent Companies before starting something more than ordinarily controversial.

I also have in mind that Alessandri takes over at the end of December and that this change of administration is liable to bring our old friend Merino into the picture. If this happens, and we again have Merino on our neck, it would offer an added argument for transferring the Santiago office to Buenos Aires. I shall, therefore, ask you to go slow in this matter in the assurance that I have the matter before me and will handle it to our best advantage when I see the moment opportune. I am just as convinced as you are that the present set-up at Buenos Aires is not to the best interests of either Company. There has been bad [fol. 1049] blood, as I am sure you have found out, between Lopez and Bradley and I certainly do not think that Bradley would be any good as a manager, even if he kept decent office hours.

.

J. D. MacGregor

JDM/Q

[fol. 1050]

GOVERNMENT'S EXHIBIT 498

PAN AMERICAN GRACE AIRWAYS, INC.
135 EAST 42ND STREET NEW YORK, N.Y.

LETTER NO. 100
(HJR trip series)

Cristóbal, June 8, 1935.

A. Garni, Esquire,
New York.

Dear Garni,

PANAIR—CRISTOBAL OFFICE.

Owing to delay of cable company in not delivering your No 64 until this morning I had to continue my conversation with Rihl and Chenea without the benefit of your views. For reasons indicated below I rather discouraged their suggestion of moving into the Grace Building but the matter was handled in a way which leaves it open for further discussion and decision after we all return to New York.

While I agree in general with the principle that anything which helps to bring the two companies together is to be favored; I am not sure that this would have that effect, and, largely with the idea of making a memorandum of the points involved for use when the question comes up for decision, I am putting down here some of my thoughts on the subject.

.

From the standpoint of Grace Line, Brown does not feel that they lose anything by having Panagra in the same office or that they would lose anything by having Panair there also. He feels, just as I do, that there is an advantage to all concerned from combinations which bring the largest numbers of the travelling public into contact with both services. [fol. 1051] It may be rather remote but I also feel that since most air travellers are businessmen and shippers to these countries, there is some little advantage to the Grace Line by reminding these people who may be travelling by air that the Grace Line is the way to ship their goods.

With two separate personnels of companies to some extent competing in the same office considerable friction might develop with bad results. Rihl has suggested that we ought to have a combined office the same as in Buenos Aires. I immediately pointed out that, while I considered they had a good office there, it was ridiculous that Panair with the smaller volume of business and paying the smaller part of the office expense, should be running the office which should really be run by Panagra; stating further that I was not satisfied with the total business which that office was sending to Miami or with the portion of it which was going via Panagra (that being less than twice the movement via Panair which we were entitled to) and, although in view of the small total I was not inclined to press the proportions at this time, I would always have that in mind and would never be satisfied unless we were getting our full share. He immediately replied that so far as he was concerned he would be perfectly willing that Panagra should control the Cristobal office. While that is obviously the only form in which we could consider a joint office, I do not much like it as we would be continuously in the [fol. 1052] position of having to lean backwards. Moreover, owing to the lower cost of doing business here as compared with Buenos Aires and the very favorable arrangements we have in the Grace building, the consideration of economy is not here of the same consequence that it is in Buenos Aires and I am inclined to feel that so far as Panagra is concerned the added expense of a separate office is offset by the added advantages.

Very truly yours,

[fol. 1060]

GOVERNMENT'S EXHIBIT 503

PAN AMERICAN AIRWAYS SYSTEM
MEMORANDUM

No. 383

DATE July 21st, 1937.

TO Regional Director
DEPT. Executive
LOCATION RIO DE JANEIRO.
FROM Commercial Manager
DEPT. Pan American Argentina, S. A.
LOCATION BUENOS AIRES.

SUBJECT REPRESENTATION OF PAN GRACE.

CONFIDENTIAL

Supplementing our memorandum n° 332 of May 31st, you are advised that Pan Grace appears to have definitely turned over to this office all details pertaining to traffic and accounting matters in connection with their Argentine sub-agents, and you will recall that Alejandro spent about a month between Salta, Tucuman and Cordoba in connection with the organization of their new Diagonal service to La Paz.

.

While handling these different agencies increases the burden of this office, it is felt that it is highly desirable from a political point of view, and we also believe it will be instrumental in dissipating any ideas that Pan Grace may have had for the organization of their own local Company.

Later on I hope to send one of our solicitors on a similar trip, and I am sure that this will also redound to the benefit of Pan American Airways through the dissemination of information regarding the services of the entire system.

(SHD) C. E. MOORE.

CEM:PG

np

[fol. 1061]

GOVERNMENT'S EXHIBIT 504

COPY OF HANDWRITTEN LETTER

No. 14
Argentine

Buenos Aires, 22 Oct. '37

Dear Mr. Iglehart,

The set-up here is far from satisfactory. Without going into details, the whole problem to my mind resolves itself down to the fact that we have no one really in command of the B.A. office where we should have a good business man on that job.

Bradley is the President of the local company but his activities are confined to governmental matters and endless diplomatic correspondence with Rio, Santiago and N.Y. Moore is in charge of traffic (he and Bradley working quite independently) and responds to Rice (in Rio) and Clemens? (in N.Y.) with reference to Panair matters and to Santiago and N.Y. with reference to Panagra. Panagra operations are controlled from Santiago. The inevitable result is scattered effort, lost motion and dissipated responsibility. With the growth in complexity and importance of Panagra problems here this is not good enough.

Nor do I think the idea of Panagra having a man of its own here in an indefinite status—as we did with Kirkland—will fill the bill tho concededly that is better than nothing. The trouble is that except in respect to operating matters a man in such a position cannot really make himself felt except in a very slow and roundabout way. My feeling is that we must have a competent man in full charge of all activities here—i.e. in charge of Pan-American Argentine S.A. As Panagra is paying 2/3rds of the expenses of the local organization, I think we should have the dominant voice in the selection of that man and that he should be someone [fol. 1062] we can depend upon to look after our interests.

If we could find a satisfactory Argentine for this job that would be best, but I fear this will take too long. I have

thought some of the second men in the Munson organization here who has just left them (he is not an Argentine) and is I think enroute to New York. I think his name is Colgan. Perhaps Daulton can find out about him. Everyone here speaks very highly of him but I am afraid he may be too much just a traffic man, and, of course, he knows nothing of our problems or of aviation problems in general.

The more I think of it, the more I feel that if Juan does not accept Douglas Campbell for the job we have in mind—or if there is long delay in filling that job—as there may be, he would be just the man for the post. He would get on well with everyone. He has just the qualifications we need. He would also have a fine opportunity to develop into the other job. Juan might not readily agree but I am not sure that it might not appeal to him for various reasons—and in any case be as acceptable to him as anyone else we would be likely to select. Of all the general jobs in the field this one properly handled should rank second only to Harris'.

I have stayed over here waiting for Rice. He and Simon will be here for the week-end when we will go into all the local problems in detail. I expect to urge the necessity of resident management but will not, of course, propose Campbell. I have, however, mentioned the idea to Mac who thinks very well of it volunteering that it would also be advantageous as putting him in line for N.Y. I am just passing this suggestion along for your consideration.

I spoke to George in Lima about the Argentine agency contract of Sept. 1, 1937 which Mac signed without consulting anyone and he assured me if it was not satisfactory it would be cancelled. I also, of course, spoke to Mac about it.

Very sincerely,

Harold J. Roig

[fol. 1064]

GOVERNMENT'S EXHIBIT 505

No. 13
(HJR Trip Series)Air Mail 4.1
Lima 4.21W. R. GRACE & CO.
7 Hanover Square, New YorkA. GARNI
First Vice-President

NEW YORK, April 18, 1938.

Harold J. Roig, Esq.,
LIMA, Peru.

BUENOS AIRES OFFICE

Dear Roig:

Your No. 12:

There is no question but that the whole set-up at that place is out of gear in every respect. As I understand that about 75% of the in and out traffic is Panagra's, it does seem rather anomalous that the office should be run by Pan American Airways, instead of by Panagra. In spite of the fact that our past efforts in the latter respect failed, I shall take this question up specifically with Juan, but have no particular illusions that he will agree to turn this office over to Panagra.

From the difficulty which arose some time ago with reference to the itinerary of the Diagonal line it is apparent that we will never get first class service in the Argentine as long as affairs are looked after there by Bradley, whom I happen to know and who in turn has to report to Rice in Rio. The other day I also met the latter in New York and was rather disappointed as I expected to see a man of a much broader calibre.

[fol. 1065] Mr. Iglehart, who saw a copy of your letter No. 12, returned it to me with a note saying, "Can't we get Sanchez Elia to recommend a man?" As it will probably take an unusual effort and considerable time to get Juan to agree, if indeed he ever will agree, to turn that office over to Panagra might not the first step be to get an "Argentine Simon" to be the head of that office and then put alongside of him somebody of the type of Kirkland and let Juan take over Bradley, Moore, etc.?

With such a set-up, together with Sanchez Elia's increasing interest in Panagra's affairs, the task of getting operations of this office under our own wings will become easier than it is under existing conditions.

While discussing this Buenos Aires situation with Mr. Iglehart he expressed the opinion that it is most important for you to go to Buenos Aires. I mentioned that it was not your idea to do this as you had just been there recently but in view of the ever-changing conditions and the rather precarious position Panagra is in, it now seems as if every place should be gone over with a fine-tooth comb so that on your return you have the most up-to-date facts, with which we could then confront Juan in an effort to shake down the whole picture.

While we are going over the situation at this end I will avail of every suitable opportunity to shake Juan down as [fol. 1066] much as I can as I fully appreciate that something radical will have to be resorted to not only with reference to the running of the Buenos Aires office but also with reference to the entire present form of managing this company, which I am sure you will agree is far from satisfactory and at best extremely painful.

Very truly yours,

A. Garni

[fol. 1067]

GOVERNMENT'S EXHIBIT 506

NEW YORK, May 3, 1938.

Personal

Juan Trippe, Esq.,
Pan American Airways, Inc.,
Chrysler Building,
New York, N. Y.

Dear Juan:

BUENOS AIRES OFFICE

As you know, we receive continual complaints with reference to the unsatisfactory service Panagra is getting from Panair's Buenos Aires representation.

* * *

The absence of a competent business man in charge of the Buenos Aires office seems to be the basic trouble there. Additionally, expense accounts incurred by Bradley and I believe some of the others, are unduly excessive, and all in all Panagra is exposed to the maximum expense and the minimum service.

* * *

As you know, it is difficult to manage any business, even with well organized offices in full cooperation, but to manage a business with service such as we are receiving from the Buenos Aires office is quite impossible. We have, I think, discussed the Buenos Aires situation on previous occasions and I intended fully to discuss it again with you, together with other items which I have in my mind. However, time passes so quickly and both you and I are always [fol. 1068] so busy that it seems impossible to get together as promptly as is desirable. For this reason I am writing you specifically on the subject of the Buenos Aires office, asking you to give serious consideration to the suggestions made in the past to the effect that Panagra should have its own office and select its own personnel rather than continue

to have their affairs looked after by an incompetent and detached personnel.

I wish you would think this over so that we can get together in the near future in an effort to reach an agreement.

Very truly yours,

(Signed) A. GARNI

[Vol. 1069]

GOVERNMENT'S EXHIBIT 507

January 9, 1940

MEMORANDUM TO MR. YOUNG:

B. A. OFFICE

The B. A. office was one of the major points of controversy in the discussions of a year ago. Its promised satisfactory solution was one of the essential inducements to the settlement reached at that time.

We (and by this I mean not only Grace but all of the operating officials of Panagra) felt then and still feel that in view of the relatively greater importance of Panagra's interests in the Argentine and the fact that Panagra contributes two-thirds of the expense of the office, Panagra should own and control the local company and the B.A. office. Our second choice would be a separate organization of our own. We are willing to acquiesce in Pan American's idea that we continue to endeavor to work out the problem through the joint office only on condition that there is a basic reorganization of the existing setup.

4. So far as Panagra's relations with the office are concerned, it is essential

(a) that it be understood that the office is a joint office maintained by Panagra as well as by Panair on a partnership basis and that the viewpoint be that of a joint enterprise and not that of a Panair office incidentally and secondarily serving Panagra.

[fol. 1070]

- (b) that it be understood that the office is not a mere service station but on the contrary has the definite job of building up traffic in a very important way and that in view of the large unrealized potentialities of the Argentine nothing short of a very large increase in traffic movement will be considered a satisfactory performance.
- (c) that Panagra through its Lima and New York offices deal direct with the B.A. office on all matters affecting any phase of Panagra's business and that the B. A. office deal direct with Panagra on these matters without going through the Regional Director in Rio or Pan American in New York.
- (d) that it is not sufficient to merely deliver the Panagra route to those asking for it but that the route must be definitely and specifically sold and that we require a definite persistent sales campaign with reference to our route.

We realize, of course, that the foregoing cannot be accomplished overnight and that the personnel changes involved will have to be carried out carefully and with due regard to all concerned. We feel, however, that Roll should approach the problem with the foregoing objectives in mind and should be able to make his definite recommendations for their consummation within two or three months.

H.J.R.

TJK-21

NEW YORK COPY

JOINT FACILITIES, ETC.

Lima, June 19, 1942.

Mr. H. J. Roig,
NEW YORK.

Dear Mr. Roig:

The present and future need for economy in our operations, as reflected by the contents of your Palmetto #73 and all that it implies, brings with it the thought that it may be about time for us to reconsider our position with regard to joint facilities arrangements we now have in effect with Panair, particularly at the Canal Zone. The way present costs are running leads us to believe that the \$2,900, which we now pay per month (April 1942) is apt to increase steadily to the point where we might find it desirable again to have our own organization at the Canal. In order to complete the picture, we might also mention that we pay Panair about \$1,200 a month for serving our aircraft at Balboa, in addition to the Joint Facilities charges.

...

In addition to the foregoing, we have a feeling that since we entered into the joint facilities idea in 1937, and particularly as a result of the elimination of our own division office in Cristobal in 1938, we have lost our identity in the Canal Zone area. We not only have lost our identity but we have in many ways put ourselves at the mercy [fol. 1072] of Panair in matters of financial control.

...

As to the Buenos Aires town office organization, we honestly feel that sooner or later we must work toward a setup where Panagra control of the office is made dominant. Aside from the fact that we have always paid the larger share of the office's running expenses, there is the

inescapable fact that the entire Argentine territory (all Panagra's) comes under its direction, whereas it is little more than a terminal office for Panair. Despite this preponderance of factors in favor of a dominant Panagra control, we believe the Buenos Aires organization has always felt that they are a Panair, rather than a Panagra, institution. Consequently, Rio has had more influence in shaping its morale, financial attitude, etc. than SAGO. Without any attempt to discredit the fine performance of that office in recent years, we have the belief that the same results might have been obtained under the admittedly stricter Panagra conception of operating economy and control.

We shall be pleased to have your reaction to all of the foregoing at your convenience. Once we have had the benefit of your general attitude on these rather large questions we will be able to proceed with a more detailed study of all factors involved.

Sincerely,

T. J. Kirkland

TJK/EP

cc: NY(2)

DCampbell

[fol. 1073]

GOVERNMENT'S EXHIBIT 509

April 15, 1948

MEMORANDUM TO MR. DOUGLAS CAMPBELL

Reference: Your memorandum of April 14th

I have already transmitted to the Latin American Division for comment the following excerpt regarding the facilities provided by our Argentine company from your draft of the proposed intercompany agreement between Pan American Airways, W. R. Grace & Company and Pan American Grace Airways:

"Pan American will cause its subsidiary, Compania de Aviacion Pan American Argentina, S. A., to continue

to render sales and other services jointly to Panagra and Pan American in Argentina, and the same joint basis of reimbursement of Compania de Aviacion Pan American Argentina S. A. as is now in effect will continue. Pan American shall regularly consult with Panagra regarding the joint activities of Compania de Aviacion Pan American Argentina, S. A., and with particular reference to sales policies, personnel, the annual budget, advertising programs and expenditures, subject to joint reimbursement."

I am transmitting to Mr. Morrison your memorandum of April 14 and again requesting that matters of the type referred to be cleared through the New York office for "consultation with Panaga". As expressed to you yesterday we are most desirous of coordinating the activities of the Argentine company to meet the needs of ourselves and of Panagra and we shall at all times be willing to discuss the entire set-up with you from every angle including efficient sales activities, control of expenses and all other pertinent factors. We shall endeavor to discuss important changes with you in advance, and in every case will give full consideration to any observations and recommendations which you advance.

However, since the Argentine company is owned one hundred percent by Pan American Airways we wish to have it [fol. 1074] clearly understood that the ultimate decision regarding any action taken by or with respect to that company must rest with us.

E. Balluder

cc: Asst. General Counsel
Vice President Dean
Vice President Morrison

[fol. 1075]

GOVERNMENT'S EXHIBIT 510

August 1, 1929.

J. T. Trippe Esq., President,
Pan-American Airways Inc.,
122 East 42nd Street,
New York City.

Dear Mr. Trippe:

Mr. Van Dusen called us up this afternoon and inquired whether it would be acceptable for him to omit the name of Pan-American-Grace Airways from future publicity regarding South American service, and simply to use the term "Pan-American Airways System."

Mr. Rogers, with my approval, told him that this would be entirely unacceptable.

Mr. Van Dusen seems to have found it impossible to include, in many of his recent releases, the name of the Pan-American-Grace Airways, even when the news was news only because of developments in operations South of the Panama Canal. I enclose a copy of his release of yesterday which was sent to us only today.

We are proud of our association with Pan-American Airways and we like to have this association made publicly evident as in the name Pan-American-Grace Airways and if Mr. Van Dusen is to continue to make public news regarding any phase of the operations of Pan-American-Grace Airways, we respectfully insist that the name be fully and correctly included in his releases.

I am sorry to have to write you on this subject, but I am sure your views are identical with ours and that you will wish to see that future publicity conforms to the true situation.

Sincerely yours,

(Sgd) R. H. PATCHIN

RHP/ID.
ENCLOSURE.

1220

[fol. 1078]

GOVERNMENT'S EXHIBIT 512

W.R. GRACE & CO.
NEW YORK

New York, January 18, 1932

Dear Roig,

I received a letter from Trippe as per copy attached.

My inclination is not to reply to it at all as I do not want to reply contentiously and I do not quite see how I could reply otherwise. Nevertheless it may be advisable to answer in some form. What do you want me to do?

Yours very truly,

D. S. Iglehart

[fol. 1079]

PAN AMERICAN AIRWAYS, INC.
General Offices—122 East Forty-Second Street
New York City

January
9
1932.

Mr. D. Stewart Iglehart, President,
W. R. Grace & Company,
7 Hanover Square,
New York, N. Y.

Dear Mr. Iglehart:

On returning to New York today, after a week's absence, I am in receipt of your letter of December 29th, addressed to Mr. Whitney, which Mr. Whitney has forwarded to me for acknowledgment.

In your letter you refer to two recent matters that have come to your attention, prejudicial to the interests of our joint enterprise—Pan American-Grace Airways, Inc.

The first has to do with the recent traffic map issued by the Traffic Department of Pan American Airways, Inc. This map, following the usual practice, makes no pretext at geographical accuracy. I refer you to timetables and similar data, as released by our principal railroads. It does, however, accurately convey the arrival and departure days at all points covered, including points on the West Coast—the purpose for which it was conceived and released. Personally, I thought the information was presented in a very clear, concise and economical manner. In this connection, it has been favorably commented upon by other aviation officials in the United States and abroad.

* * *

The map should, however, as you have pointed out, contain the legend "Pan American-Grace Airways" appropriately placed. Also, the legend "Seadta Airways System" [fol. 1080] should have been included with the routes operated by that company. Furthermore, there should have been included in some clearer way, the fact that there is an over night stop in Haiti or Santo Domingo Southbound, and Porto Rico Northbound. A circle, with supporting arrows adjacent to the routes, would accomplish this result. I will call these matters to the attention of the Traffic Department, that our next map released contain these corrections.

* * *

I am sorry to hear that a friend of yours who applied at the Pan American traffic office here at New York regarding air passage to Buenos Aires, was not even advised of the West Coast Route.

* * *

Mistakes have been made in the past, no doubt, by both parties to our partnership. Pushing the East Coast to the detriment of the West Coast, in the case of your friend, mentioned in your letter, is an example of Pan American in the past, not having "played ball". However, on the other hand, our traffic people have felt that your steamship advertising might be improved from the point of view of Pan American-Grace Airways and also Pan American Airways. For instance, they feel that it would be more correct

were the constant reference to "the fastest service between the United States and the West Coast" changed so as to read "the fastest steamer service . . . etc." I am enclosing copy of a recent advertisement illustrating this point.

Yours sincerely;

J. T. Trippe

JTT:B
Enclosures

[fol. 1081]

GOVERNMENT'S EXHIBIT 513

PAN AMERICAN-GRACE AIRWAYS, INC.
13 First 42nd Street, New York, N.Y.

PERSONAL LETTER NO. 1786

SUBJECT: PANAIR PUBLICITY IN U. S.

HRH/FL

LIMA, January 29, 1934

Mr. J.D. MacGregor, New York.

Further to the question of whether or not we are part of the Pan American Airways System, I call your attention to the article in the New York Sunday "Times" for January 14, 1934, under the heading "Along the world's far-flung airways" and the sub-heading "Ocean line for Reich", where it is brought out how important it is for Panair to operate twice a week Miami to Rio in order to "result in closer affiliations between the businessmen of Brazil and the Argentine". The article also states that Panair have purchased twelve 200 mph. landplanes to be used between the U.S. and the Canal Zone on the overland route from Brownsville. Nowhere in the article, nor on the map, is any showing or mention made of the West Coast service, nor the fact that it is the fastest connection to B.Aires.

I presume you have seen the issue of "Cosmopolitan" with the Wilson and Knight article about Panagra. As you recall, we spent a large sum of money on these people, in addition to the time we spent on them, and we end up by only a word or two, and that word not too complimentary. I haven't personally seen the article, but have heard of it; it would seem that we are not getting a fair break on the publicity which I presume we are paying for.

H.R. Harris

H.R. Harris

[fol. 1083]

GOVERNMENT'S EXHIBIT 515

7 Hanover Square
NEW YORK

February 25, 1936

Dear Mr. Inglehart,

In accordance with your request I am sending you herewith copy of your letter of November 29th to Mr. Trippe re publicity. We do not appear to have received a reply to this letter, but Mr. Garni tells me that he and Mr. Roig took this matter up at a Panagra Board Meeting.

Mr. Garni has today written to Mr. Trippe as per attached copy of letter. He has asked me to tell you that he advised Mr. Harlee Branch of this incident when he was in Washington on February 22nd.

Yours very truly,

Helen R. Quilty

D. S. Inglehart, Esq.,
Delray, Florida

[fol. 1084]

NEW YORK, November 29, 1935.

Juan T. Trippe, Esq.
Pan American Airways, Inc,
Chrysler Building,
New York City.

Dear Mr. Trippe:

Some days ago I saw a copy of Pan American Airways System schedule corrected to November 1, 1935.

I am surprised to note that there is no reference by name to Pan American-Grace Airways, Inc, except in the Index to Airports, Traffic Offices and Agents. While as a matter of fact twice weekly service via the West Coast route is the only 5½ day service to Buenos Aires, the natural impression from the caption on the cover is that Pan American Airways is furnishing a 5½ day service three times a week with its clipper ships.

Today I saw a further notice with reference to express shippers, which says that elapsed time from the United States to Buenos Aires has been cut from 7 days to 5½ days, and to Rio de Janeiro, to 5 days, and that this improvement is a further contribution by Pan American Airways to American industry. This presentation is decidedly misleading as through this linking up of the 5½ day trip to Buenos Aires and the 5 day journey to Rio de Janeiro, [fol. 1085] anyone reading the circular who is not thoroughly familiar with the matter under discussion must take it for granted that the notice refers exclusively to the air service between the United States and Buenos Aires via the East Coast only.

The above are just two examples taken at random of the entirely inadequate publicity which Pan American-Grace Airways is receiving under the present arrangement. For some time I have felt that Pan American-Grace Airways should have its own publicity and publish its own schedules in this country and I am therefore asking our representative on its Board to discuss this whole matter at the next Board meeting.

Very truly yours,

(sgd) D S IGLEHART

February 25, 1936

[fol. 1086]

Juan T. Trippe, Esq.,
Pan American Airways, Inc.,
Chrysler Building,
New York City

Dear Juan,

I spent two weeks in Miami Beach and had occasion to visit the airport. While there one of the Pan American men, whose job it seems to be to enlighten the public on the mysteries of aviation, explained to Mrs. Garni and myself and others the qualities, etc. of the big clippers. He went on to say that these planes covered 15,000 miles on each round trip to Buenos Aires and that they are making the trip in 5½ days. I asked him whether this was via the East Coast, and when he answered affirmatively I said, "Is there not also a line to Buenos Aires via the West Coast, and is that route not somewhat shorter and quicker". He answered emphatically in the negative saying that the only way to get to Buenos Aires in 5½ days was via the East Coast, and I let the conversation go at that.

This incident, in which I am sure you will be interested, seems to jibe with other stories that reach us from time to time tending to put the West Coast service in the back-[fol. 1087] ground. While on this subject I am reminded of Mr. Iglehart's letter of the 29th of November addressed to you, to which he does not appear to have received a reply.

With best regards,

Yours very truly,

(Sgd) A. GARNI

[fol. 1089]

GOVERNMENT'S EXHIBIT 517

W. R. Grace & Co.
New York

(JTK Trip Series Letter No. 55)

LIMA, Peru
October 31, 1938

D. S. Iglehart, Esq.

NEW YORK

Attention: Mr. H. J. Roig

Dear Mr. Iglehart:

PANAGRA ADVERTISING

I was surprised to find that in the regular Panagra advertisement in "El Comercio" the name Pan American Grace Airways, Inc. did not appear, although Pan American Airways, Systems did, as you will see from the advertisement attached hereto.

I asked Muhlfeld to explain this and he advised that in carrying out instructions concerning the reduction in the size of the advertisements, they failed to include the name of Pan American Grace Airways, Inc. as instructed.

He advises, however, that this advertisement will be corrected as from tomorrow on.

Yours very truly,

J. T. Kirby
A. CARRI

JTK/jb

HANDWRITTEN NOTE: Roig,

Should Panagra not stop using "Pan Airways System". This might become a liability.

[fol. 1092]

GOVERNMENT'S EXHIBIT 519

October 24, 1939

V. E. Chenea, Esq.,
Pan American Airways, Inc.,
Chrysler Building,
New York City

Dear Chenea:

Referring to our telephone conversation this morning, I enclose summary of Mr. Godoy's interviews with the travel agents, etc.

As I explained to you this morning, Mr. Godoy undertook this checkup on his own initiative from his home yesterday when he was laid up with a cold. Mr. Godoy has made his report in question and answer form as a convenient method of summarizing the interviews but the questions and answers are not verbatim as they were not taken by a stenographer at the time. They were written out, however, immediately following the interviews and may be taken as virtually literal. The interviews are a terrific shock to me and I know will be to you. They show the existence of a problem of the first magnitude in the immediate solution of which I know I can count on your fullest cooperation.

I would appreciate it if you would give me a ring after you have been over this memorandum. If you would like to check up on the interviews with Mr. Godoy, I would be glad to arrange for him to come in to see you.

Sincerely yours,

Enclosure

[fol. 1093]

American Express — 65 Broadway

Q.—How can I travel by plane to B.A.?

A.—By way of Pan American Airways from Miami. The Clippers go from Miami to B.A. You can also go by airplane from New York to Miami.

Q.—How many departures a week are there?

A.—Only twice a week, leaving Wednesdays and Sundays from Miami, arriving at B.A. on Mondays and Fridays respectively. You must leave New York the day before in the morning plane. You can leave in the night plane, but you might miss your connection.

Q.—What are the rates?

A.—To B.A. from Miami, \$550 one way, \$990 round trip.

Q.—Don't you have a through rate New York to B.A.?

A.—No. You have to add to the above, the New York Miami rate, \$71.75 one way, \$129.20 round.

Q.—What's your baggage allowance?

A.—On through bookings from Miami to B.A., 77 lbs.

Q.—Does the same allowance apply to your trip from New York to Miami?

A.—Yes.

Q.—The trip you have described takes seven days, or at least six days if you fly from New York to Miami at night. I thought you could make a faster trip. Isn't there a 5-day trip?

A.—Never heard of trip in five days. It cannot be done.

Q.—Why— isn't there a shorter route over the West Coast?

A.—There is no shorter route over the West Coast. The West Coast takes longer than the East Coast.

[fol. 1094] Q.—What is the West Coast Schedule?

A.—Leaves Miami Saturdays and Tuesdays, arrives B.A. Wednesdays and Saturdays.

Q.—What are your rates over the West Coast route?

A.—I am unable to give them to you now because they are not in the tariff. I will have to call the line.

Q.—Have you found out?

A.—Yes—the same as on the East Coast.

Q.—Which line is the one running the West Coast service?

A.—Pan American Airways.

Q.—Why— isn't it the Pan American-Grace Airways?

A.—No, Pan American-Grace Airways is only from Chile to Argentina. From Cristobal to Chile is Pan American Airways.

American Express—605 Fifth Avenue

Q.—What companies are there running planes to B.A.?

A.—Only one—the Pan American Airways.

Q.—How many departures are there?

A.—Twice a week from Miami to B.A., via the East Coast, and twice a week via the West Coast.

Q.—What are the rates?

A.—From Miami to B.A., via East Coast, \$550 one way, \$990 round trip.

Q.—What about the rates via the West Coast?

A.—From Miami to Santiago, \$488, and from Santiago to B.A. \$100.

[fol. 1095] Q.—And what would be the through rate?

A.—The through rate would be the addition of the two, or \$588, but you would not do it that way, as it would be more expensive.

Q.—Well, suppose I wanted to go down one way and up the other, what would the round trip be?

A.—Then you would take a Round South America trip, going from Miami down the West Coast to Santiago, then to B.A., and up the East Coast, and this would cost you \$1150.

Q.—I don't understand this, as this would be more than the aggregate of the two one way fares.

A.—I find that my figures were wrong. The price of your Round South America ticket would be only \$1,007.

Q.—But, suppose I wanted to go to B.A. via the West Coast, and return the same way, what would be the round trip fare?

A.—The figure I first gave you, of \$100 from Santiago to B.A., is incorrect, as only \$80 is added to the \$488 from Miami to Santiago, so that your through rate Miami

to B.A. via Santiago is only \$568, and your round trip would be only \$1,022.40.

Q.—Which is the better way to go?

A.—If you go to B.A., the East Coast is better, because it is faster, less expensive, and saves you the trouble of passing through all those countries and getting visas. There's no point in going to Argentina with a stop at Santiago, when you can go direct via the East Coast.

[fol. 1096] Q.—I don't see where the East Coast is faster. Your East Coast schedules are six days. Aren't your West Coast schedules five days only?

A.—Yes, that's true. Still, the East Coast service is faster, and if it takes longer it is because the distance is greater.

Q.—What's your baggage allowance?

A.—From Miami to B.A., 77 lbs.

Q.—And from New York to Miami?

A.—If in connection with through passage, 77 lbs.

Q.—Who operates the West Coast line? Is it the Pan American Grace Airways?

A.—No. The only service is Pan American Airways. Grace is only a steamship line. There is no Pan American Grace Airways.

American Express—150 West 41

Q.—What airplane lines are there to B.A.?

A.—Only one—the Pan American Airways.

Q.—What departures have they?

A.—Two a week, leaving Miami Wednesdays and Sundays, arriving at B.A. Mondays and Fridays respectively.

Q.—Those planes take six days. Aren't there some faster planes?

A.—No.

Q.—What about a route down the West Coast?

[fol. 1097] A.—That's down to Chile. It is no good. It does not go through to Argentina.

Q.—Why—I thought that was a faster way.

A.—Why go to Chile if you go to Argentina. It would be like going to New York to Chicago by way of Miami. There is no through plane. You have to change planes at Santiago, and then go across the Andes.

Q.—What are your schedules on the West Coast route?

A.—Planes leave Miami Saturdays and Tuesdays, you arrive at Santiago on Tuesdays and Fridays, and at B.A. on Wednesdays and Saturdays respectively.

Q.—Well—doesn't that make five days instead of six?

A.—Still, one always takes the East Coast route, and there you need Brazilian and Argentine visas only. Over the West Coast route you need other visas.

Q.—What are your rates?

A.—\$550 one way, \$990 round, on either route.

Q.—What's your baggage allowance?

A.—77 lbs.

Q.—What about your rate from N.Y. to Miami?

A.—About \$78 one way. Round trip, twice that less \$10.

Cooks-Wagons-Lits—221 Broadway

Q.—What are your airplane departures for B.A.?

[fol. 1098] A.—The East Coast flyer leaves Miami twice a week, on Sundays and Wednesdays, by way of Porto Spain, San Juan, etc. This is considered the most direct route. Fare is \$550 one way, \$990 round.

Q.—Isn't there another route?

A.—Yes, by way of Cristobal, down the West Coast. These planes leave Miami twice a week, on Saturdays and Tuesdays. Fares are the same.

Q.—You referred to the East Coast as the most direct route. Wouldn't the West Coast seem more direct, since it takes one day less?

A.—Yes, but from our experience most people travel down the East Coast. However, at this time of the year the West Coast route may be very desirable over the Andes.

Q.—What do you mean?

A.—As the seasons down there are reversed from ours, it is not likely that they will have bad weather over the Andes now.

Q.—What route would you advise me to take?

A.—The West Coast, because it is shorter and the time of year is okay.

Q.—What company runs the West Coast service?

A.—Pan American Grace Airways.

Q.—Does the West Coast route have some special name, similar to the East Coast Flyer for the East Coast route?

A.—No.

Q.—What's your baggage allowance?

[fol. 1099] A.—77 lbs from Miami to B.A., but only 44 lbs. from N.Y. to Miami.

Cooks-Wagon-Lits—587 Fifth Avenue

Q.—What are your plane departures for B.A.

A.—Twice a week, leaving Miami Sundays and Wednesdays, arriving at B.A. Fridays and Mondays.

Q.—Isn't there another schedule?

A.—No.

Q.—I thought there must be another schedule. The above schedule takes six days, whereas I have been told of people making the trip in five days.

A.—I don't care what you have been told. I can tell you positively there is no other schedule. I am looking at my schedule, effective October 1939.

Q.—Still, I understand there is another schedule by way of the West Coast.

A.—But why go down the West Coast. Why go to that trouble.

Q.—What are your schedules on the West Coast route?

A.—You can leave Miami twice a week, on Tuesdays and Saturdays, stopping at Cristobal, and then stopping at Ecuador, and then stopping at Arica, and then stop-

ping at Santiago, and then crossing the Andes, and then arriving at B.A. on Saturdays and Wednesdays.

[fol. 1100] Q.—Well—doesn't that make a faster schedule, of only five days, instead of six days on the East Coast route?

A.—Yes, but the fare is about \$100 higher.

Q.—What is the fare exactly?

A.—(After a long wait) : \$550 one way, \$900 round—same as on the East Coast.

Q.—Which route would you prefer to take?

A.—I would go down the East Coast, as this saves high flight over the Andes, which some people can't stand.

Q.—Would you really prefer the East Coast route?

A.—Yes, especially on account of height and flight over the Andes. I have heard you have to fly as high as 20,000 feet, and the planes are equipped with "air tanks", with individual appliances enabling passengers to have the proper "air". I wouldn't take the chance, if I could avoid that route. Then, the East Coast gives you the chance to stop at Rio. Yes, I would much prefer the East Coast. Then again, from Miami to Trinidad you fly over a group of islands, visiting the most scenic part of the West Indies.

Q.—Doesn't the West Coast route also take you over the West Indies?

A.—Yes, I can see that you stop at Cienfuegos, and then at Kingston, and after that you fly to Cristobal—about the same distance as the flight to Bermuda.

[fol. 1101] *Eastern Air Lines—51 Vanderbilt Avenue*

Q.—I should like to have some precise information on air-planes services to B.A.

A.—Why don't you call Pan American Airways for more complete information. We can give you their number.

Q.—Can't you tell me yourself?

A.—There are two planes a week, leaving Miami on Sundays and Wednesdays, arriving at B.A. on Fridays and Mondays. Fare, \$550 one way, \$900 round.

Q.—Isn't there another schedule?

A.—No.

Q.—Are you sure there is no other schedule? I understood there were more frequent departures than two per week.

A.—There is absolutely nothing else.

Q.—Are you sure you have looked at all your schedules?

A.—I have the Aviation Guide in front of me.

Q.—What about the Pan American Airways schedules?

A.—That's what I am looking up in the Aviation Guide.

Q.—What about the route down the West Coast of South America?

A.—Oh, yes. You also have two weekly planes that way, leaving Miami on Saturdays and Tuesdays, arriving at B.A. on Wednesdays and Saturdays. Fares, the same as the East Coast route.

Q.—What's your baggage allowance?

A.—From New York to Miami, 55 lbs. From Miami to B.A., 77 lbs.

[fol. 1102] Q.—I was told today by one source that your allowance from New York to Miami, in connection with a through passage to B.A., is 77 lbs. Another source said your allowance from New York to Miami is only 44 lbs.

A.—They are both wrong. 55 lbs from New York to Miami is the correct allowance.

Pan-American Airways—Reservation Department.

No memorandum was kept of this conversation, as the employee handling the inquiry was very obliging and efficient, and from the outset stated that there are four planes a week, two via the West Coast and two via the East Coast, also that the West Coast Route takes 4½ days and the East Coast 6 days.

October 23, 1939.

[fol. 1103]

GOVERNMENT'S EXHIBIT 520

Telephone

Murray Hill 6-7100

Cable Address
"PANAGRA"

PAA Grace
PAN AMERICAN-GRACE AIRWAYS, INC.
Executive Offices
Chrysler Building—New York, N. Y.

January 24, 1941

C. B. Whitney, Esq.,
Pan American Airways,
Chrysler Building,
New York City

Dear Sonny,

My attention has been called to the Pan American Airways System Organization Chart effective January 15th, issued with Executive (System) Memorandum No. 55. This is the first time I have seen one of these charts.

In this chart Pan American-Grace Airways occupies merely the position of a division of the System.

This is obviously not a correct picture and I cannot but feel that it is definitely prejudicial in connection with the question of services of which I spoke to your Executive Committee on the 14th inst.

I would appreciate it if you would have appropriate correction made.

Sincerely yours,

H. J. R.

[fol. 1105]

GOVERNMENT'S EXHIBIT 522

COPY

April 3, 1941

MEMORANDUM TO MR. EVAN YOUNG
PUBLICITY—TRANSFER OF MR. ARTHUR CURTIS

Referring to your memorandum of March 27th, for the reasons there referred to and others which we have discussed, I entirely concur with your decision not to transfer Mr. Curtis to the position in question.

Much as I appreciate your efforts in this connection (and your cooperation has been 100% as always), I feel that I must again emphasize the importance of reaching a prompt solution of this really burning problem. Although it is no fault of yours, the fact remains that many weeks have been lost while Curtis was under consideration and the problem is no nearer solution than it has been for the past ten years.

Referring to the last sentence of your memorandum, for reasons which I will explain to you verbally and confidentially, I have reluctantly but definitely reached the conclusion since we last discussed the subject, that it is impossible for Panagra publicity to receive proper attention under Mr. Van Dusen. I therefore propose that as from January 1, 1941, the fee which Panagra pays Pan American be reduced by the sum of \$50,000 per annum and that Panagra use this amount to set up its own independent publicity department and attend to its own publicity, Pan American being, of course, thereupon relieved of any further obligations in respect of our publicity work.

H.J.R.

[fol. 1109]

GOVERNMENT'S EXHIBIT 526

May 29, 1942

Thomas A. Morgan, Esq.,
Chairman, Executive Committee,
Pan American Airways Corporation,
Chrysler Building,
New York City.

My dear Mr. Morgan,

I am informed that Pan American Airways have engaged a new advertising agency and that an advertising campaign is proposed with the general objective, in effect, of selling the idea of the efficiency and desirability of world monopoly in American foreign aviation. I understand that the last Annual Report of Pan American Airways Corporation, featuring "Pan American World Airways System", is indicative of the general theme of this campaign.

Although Pan American-Grace Airways, Inc. is an independent company with its own directors and officers, the Annual Report referred to assumes to list Pan American-Grace Airways, Inc. along with various divisions and 100% subsidiaries of the so-called Pan American Airways System. It also shows as the so-called "Executive Officers" of the "Pan American Airways System" (and that in a manner clearly intended to indicate their seniority to the officials of the divisions and companies listed as a part of this [fol. 1110] System) various individuals who are, I understand, the officers of Pan American Airways Corporation or of Pan American Airways, Inc.

We do not subscribe to the idea of world monopoly in American foreign aviation. Pan American-Grace Airways, Inc. is not a subsidiary of any "World Airways System". For these reasons as well as because of the pending proceedings before the Civil Aeronautics Board, we must request that Pan American-Grace Airways, Inc. be not included in the proposed advertising campaign in any form implying its acquiescence in the above thesis or its being

a part of any such monopoly. Moreover, we must request that all such representations of Pan American-Grace Airways, Inc.'s status as that in the above mentioned Annual Report whether in publicity, advertising, annual reports or other publications of Pan American, be discontinued as we consider such statements to be unwarranted and damaging to Pan American-Grace Airways, Inc. and to its standing as an independent company:

Very truly yours,

D. S. Iglehart

[fol. 1116]

GOVERNMENT'S EXHIBIT 531

March 3, 1948

Memorandum to Mr. H. J. Roig

Grand Tour—Joint Advertising

Returned herewith is a copy of proposed joint PAA and Panagra ad for the New York Herald Tribune for March 21st.

The specific problem proposed by this script is the merger of the identity of Panagra into Pan American World Airways.

This type of advertising, selling the notion of the "Grand Tour", has obvious sales advantages. On the other hand, suggestions of the identity of the two airlines are not only factually inaccurate, but raise serious policy questions involving (a) Government control aspects and (b) Trade-mark identity.

On the first point, it is patently advantageous not to becloud the fact that Panagra and Pan American World Airways are in direct competition with each other.

On the second point, the trade-marks "Panagra" and "Pan American-Grace Airways" are valuable properties. The creation of a public impression that the service represented by these trade-marks is performed by Pan American

Airways Inc., instead of by the trade-mark owner Pan [fol. 1117] American-Grace Airways Inc., might be held to having vitiated the ownership of the trade-marks.

It is, therefore, recommended that all such expressions as "Only PAA system offers daily service to every major city on both coasts" and "Name any country in South America—Pan American flies you there" should be eliminated. This can be done without giving up the advantage of advertising the "Grand Tour".

Another objectionable feature of the ads in question is the use of a distorted map which conceals the advantages of the West Coast route to Buenos Aires. It should be noted here that Panagra over-emphasizes that advantage. It would seem highly desirable that all maps used depict accurately the relationship between the two routes regardless of which line creates the advertisement.

Benjamin H. Oehlert, Jr.

[fol. 1418]

GOVERNMENT'S EXHIBIT 532

June 1, 1948

Mr. Howard B. Dean
Pan American World Airways System
Chrysler Building
New York 17, N.Y.

Dear Howard:

Referring to my telephone conversation last week, I enclose herewith letter received from Jimmy Walker and memorandum of Ben Oehlert's interview with a Pan American counter clerk at the Air Terminal Building in New York on May 26th.

It seems to me from these and other instances which have come to our attention that the understanding which exists

at the top is not getting down to the people who are actually in contact with the public. I know that you will agree that these instances call for some very specific action. My suggestion would be that a very specific set of written instructions be prepared with the approval of the Panagra Traffic Head and that these instructions be issued to all selling offices of Pan American, directly to counter clerks and all others having direct contact with the public in the sale of Panagra transportation.

Very truly yours,

/s/ HAROLD J ROIG

[fol. 1119]

RM-99

Miami Traffic Office Handling
of Passengers

May 21, 1948

Pan American Grace Airways Inc.
NEW YORK

Attention Mr. J. T. Shannon

Gentlemen:

Ex-employee Robert Kelly, who has just returned from the States, visited this office yesterday and reported the following:

A friend of his whom he met in Miami inquired of him why it took so long to travel Miami/Buenos Aires. Kelly asked to see his tickets and he was sold over the east coast route. Mr. Kelly proceeded with his friend to the downtown Pan American Airways traffic office and when he asked the traffic clerk why he sold this passenger over the east coast, the clerk replied, "We are instructed to sell all passengers over the Pan American Airways route unless the passenger particularly specifies the west coast or Panagra".

In addition Captain Achilles on Monday evening, May 17, was standing in this same office when a passenger in-

quired if he could travel on the DC-6. The traffic clerk replied that there was no DC-6 that evening, whereupon Captain Achilles reminded him that we were now into daily service with DC-6's. The traffic clerk in front of the passenger refuted this argument and went further by saying that there was a DC-4 the evening before (May 16) and Captain Achilles of course told him he was incorrect. The rest of the discussion is wordage but the point is clear.

Reasons such as the above are probably partially responsible for the falling off in our southbound loads over El Interamericano. We trust you will be able to use this information advantageously.

Yours very truly,

James W. Walker, Jr.

JWW:GKS

cc H. J. Roig

G. Vidal

T. J. Kirkland

D. Campbell

[fol. 1120]

May 26, 1948

MEMORANDUM TO MR. H. J. ROIG

At lunch today John Shannon and I had a general discussion with Messrs. Lipscomb and Friendly of Pan American regarding advertising.

Both Mr. Friendly and Mr. Lipscomb agreed with John and me that a standard map of the Western Hemisphere should be agreed upon which would not have any distortions and which would be uniformly used. It is my understanding that John and Lipscomb will work this out together.

There was no such meeting of the minds on the question of Pan American's advertising, "Name any Country in South America—Pan American will Fly You There". Lipscomb took the position first that the words "Pan American" as used above mean "Pan American World Airways System"; second, that Panagra is a part of "Pan American

World Airways System" and third, that the type of advertising was good for Panagra anyway.

Henry Friendly agreed with Lipscomb, stating that there never had been any competition between Pan American and Panagra and never would be, but conceded that, had the issue come up with him, he would have felt it advisable to consult with Grace before running such an ad.

Although there is a basic disagreement as to whether Panagra is part of the "Pan American World Airways System" in such a manner as to justify a statement such as "Pan American Will Fly You to Any Country in South America", we at least came to this general agreement—that so far as practical (meaning not including foreign advertising prepared by Pan American Regional Offices) Pan American would advise more closely than it has with us before running advertising referring to or featuring either Panagra or its routes.

When I left the Chrysler Building I walked across the street to the Air Terminal Building and at Pan American's counter inquired of the clerk for information regarding Buenos Aires, whereupon approximately the following colloquy took place:

Oehlert: I should like to have some information about flying to Buenos Aires.

Clerk: Yes sir, what would you like to know?

Oehlert: How much does it cost?

Clerk: How long will you stay in Buenos Aires?

Oehlert: About two weeks, why?

Clerk: A round-trip ticket good for 90 days is cheaper than one good for a longer period.

Oehlert: How much is the difference?

Clerk: About 10%.

Oehlert: What is the 90 day rate?

Clerk: It is \$180 round-trip from New York to San Juan and \$828 from San Juan to Buenos Aires for a total of \$1,008.

[fol. 1122] Oehlert: When do the flights leave?

Clerk: Daily at 11:15 p.m. Eastern Standard Time.

Oehlert: When do they arrive in Buenos Aires?

Clerk: At 4:00 p.m. on the second afternoon.

Oehlert: How many hours is that?

Clerk: 37.

Oehlert: What kind of plane do you use?

Clerk: DC-4 and you are entitled to 66 lbs. luggage.

At that point I turned away from the counter but immediately turned back and the following discussion took place:

Oehlert: 37 hours is a long time. Isn't there something quicker than that?

Clerk: Yes, you can go by way of Miami but you have to change planes there and it costs more.

Oehlert: How much does it cost?

Clerk: (looking at several books) Counting the extra constellation fare, it is \$86.83 each way to Miami for a total of \$173.66 round-trip and \$928.80 round-trip from Miami to Buenos Aires for a total of \$1,102.46 or about \$100 more than the other way.

Oehlert: How long does it take?

Clerk: It is 20 hours from Miami and 4 or 5 hours from New York to Miami and a lay over in Miami of $1\frac{1}{2}$ hours.

[fol. 1123] Oehlert: That is about 29 $\frac{1}{2}$ hours then.

Clerk: Well you leave New York at 6:30 p.m. and counting change-over arrive in Buenos Aires at 6:15 p.m. but, of course, there is a difference in time zone.

Oehlert: What equipment do you use on that flight?

Clerk: DC-6.

Oehlert: Is that your flight, too?

Clerk: Yes.

BENJAMIN H. OEHLERT, JR.

cc: Mr. J. P. Grace, Jr.

Mr. A. B. Shea

Mr. John Shannon

[fol. 1124]

GOVERNMENT'S EXHIBIT 533

June 2, 1948

W. R. Grace & Co.
Hanover Square
New York 5, N.Y.

MEMORANDUM TO MR. J. P. GRACE, JR.

It is apparent from the attached that there is a great deal of ignorance shown on all counts from both the agents and the airlines contained in this survey.

As far as the airlines are concerned you will note that both EAL and NAL quoted west coast connections. However, EAL referred to Pan American Airways with no mention of Panagra as opposed to NAL who quoted the connecting flight as Panagra. We would like to call your attention to the telephone conversation with PAA reservation bureau as compared with the personal contact with the downtown office. In the first case it becomes obvious that there is a definite tendency on the part of the main reservation of PAA to sell the east coast and avoid any mention of the west coast service to say nothing of using Panagra's name. This conversation is almost word for word what Mr. Oehlert received at the uptown counter. In the personal conversation at the downtown office it should be pointed out that although Mr. Ford of this department was unknown to the clerk in this office that nevertheless

a great deal of our business is done through this particular clerk whose name is Mr. Smyth and we feel because of the [fol. 1125] unusual amount of business that he does on the west coast and also because we know personally that he is a high type fellow and would react in a more reasonable manner. As for the "outside" airlines such as TWA, UAL, etc. we more or less expected them to refer us to Pan American Airways, but we feel that closer relationship with these airlines would be extremely helpful in obtaining sales as we know from personal experience a great many calls come to these airlines regarding travel to any point regardless of whether these airlines have routes to these points.

As far as the agencies are concerned, we feel that their tendency to sell PAA is completely due to lack of knowledge concerning Panagra rather than a preference to sell PAA. This is based upon the fact that the fastest and more comfortable service is offered on the west coast route and therefore it is to the benefit of the agent to sell this service rather than the other particularly in view of the fact that there is only a few dollars difference in the cost.

Our own personal opinion concerning PAA's tendency to sell the east coast over the west coast is not good judgment since Panagra although an affiliate is part of the PAA system and it is to the best interest of PAA to sell the best [fol. 1126] and the most comfortable service to any point on their system and that in failing to do so they are more apt to create ill will and lose repeat business than the gain they make by selling an inferior service. The point being that a passenger having arrived in Buenos Aires after flight on the east coast will unquestionably discover in due course that the trip could have been made with a good deal of time saved had he been told of the west coast service. It will be difficult to understand why he was sold this inferior route and not told of the Panagra route.

R. E. Montgomery

REM:DMcA

[fol. 1127] We list below several conclusions which we feel can be drawn from our contacts with the 22 agents listed:

1. In all but two of the conversations with the agents the name Panagra was not mentioned and it should be pointed out that in one of the two instances in which it was mentioned it was mentioned by a woman who had spent a great deal of her life in Buenos Aires and Santiago.
2. Most of the agents questioned had no or at the best very little knowledge of west coast service to Buenos Aires.
3. Sales effort in over 75% of the agents was directed to travel on the east coast.
4. In the majority of cases where west coast service was mentioned sales effort was directed in the following pattern.

First, east coast reservations

Second, Round South America

Third, Information was given on west coast service.

5. Most agents showed a lack of knowledge of the Pan American schedules and rates and many quoted erroneous information.
6. All agents who were forced to consult the schedule either in the American Aviation Guide of the Pan American World Airways System Schedule invariably turned to the east coast service which is on the left hand page directly opposite the west coast service and their hands usually covered the west coast service. We believe that this is not a desire to hide the schedule but a lack of knowledge as to its existence.

[fol. 1128] 7. In some cases where agents knew of the existence of DC 6 service they were not cognizant of the fact that the service charge had been abolished or that there are now daily DC 6 flights out of Miami.

8. Most agents over emphasized the necessity of paying U. S. Transportation Tax between New York and Miami when using the west coast route.
9. Most agents emphasized that a change of planes occurred at Miami on the west coast in lieu of the through plane service offered on the east coast.

Comment

In those cases where knowledge of west coast service was present and east coast service was stressed, we feel that one reason for this may be the fact that passengers would be desirous of breaking the trip at known stop-overs en route thereby enabling the agent to obtain a commission on the hotel reservation secured.

[fol. 1129]

GOVERNMENT'S EXHIBIT 534

W.R. GRACE & CO.
Hanover Square
New York 5, N.Y.

June 3, 1948.

MEMORANDUM TO MR. SHEA

Montgomery's representatives personally called on:

- (1) 22 travel agencies
- (2) PAA Reservations, 100 Broadway,

and further they telephoned six airlines as follows:

- (1) PAA Reservations
- (2) American Airlines Reservations
- (3) United Airlines
- (4) TWA Airlines
- (5) National Airlines
- (6) Eastern Airlines

We can divide these various contacts into three groups:

- (1) The personal contact with PAA Reservations, 100 Broadway, and the telephone conversation with PAA Central Reservations.

- (2) The telephone call with each of the five other airlines.
- (3) The personal visit with each of the ~~22~~ travel agencies.

CATEGORY 1

With reference to Pan American, as explained in Montgomery's memorandum, the man who was seen at 100 Broadway works with our people all the time and is thoroughly familiar with the Panagra flights and, therefore, mentioned them right off the bat. He did say, however, that the flight leaving New York for the East Coast is simpler and more direct, which is wrong and shows what kind of instructions he is receiving:

PAA Reservations failed to mention Panagra at all until the mythical customer said, "I was just wondering would there be a shorter way of going". In other words, unless the customer had known about Panagra, Panagra would never have been mentioned. So much for Pan American Airways.

CATEGORY II—Telephone conversations with the 5 domestic airlines.

We can divide up this category into the following divisions.

- (1) Those that mentioned the service out of Miami and called it "Pan American"—Eastern Airlines and National Airlines (obviously because they would benefit by it).

[fol. 1130] (2) Those who simply referred the applicant to Pan American Airways. TWA, United and American are also mentioned and Air France. This latter situation may be explained by the fact that Pan American handles all traffic in the United States and, therefore, it might be considered logical for the domestic airlines to refer the applicant to Pan American. But you can see what happens when they refer to Pan American as per the interviews that we have had at Pan American counters. So it is the same old run-around no matter where you go.

CATEGORY III--22 Travel Agencies

These can be sub-divided into the following main categories.

- (1) Those who mentioned Panagra service right off the bat without any needling from the customer but called it Pan American.
- (2) Those who mentioned Panagra service right off the bat without any needling from the customer and called it what it is, Panagra.
- (3) Those who only mentioned Panagra service after they were needled and prompted by the customer.
- (4) Those who failed to mention Panagra service at all, regardless of the amount of needling and prompting.

The analysis follows:

I Those who mentioned Panagra service right off the bat without any needling from the customer but called it Pan American	II Those who mentioned Panagra service right off the bat without any needling from the customer and called it what it is Panagra	III Those who mentioned Panagra service after they were needled and prompted by the customer	IV Those who failed to mention Panagra service at all regardless of the amount of needling and prompting
Paul Tausig & Son "Panagra a subsidiary of PAA"	Continental American Travel Inc.—	Embassy Tours—"Mentions PAA all the way but says DC-6 might be used northbound from B.A."	Gaul Travel Service (No amount of needling could evoke any mention of Panagra and the pay off was that they first mentioned a Constellation in the Pan American East Coast Route.) "El Interamericano poster on the floor."
Haley Corporation—"Mentions via Miami but better to go direct from New York to avoid changes and the possibility of missing connections"	Exprinter Travel Service "Best way down east coast, back via west coast."	A. T. Henderson Co., Inc. —"May go via Miami but it is a PAA flight"	United States Travel Agency—"Pan American best and fastest way."
Columbia Tours, Inc.—"Mentions El Interamericano."	Travel Arrangements—"Mentions El Interamericano."	The House of Travel Inc. —"DC-6 best service but must pay service charge."	American Express Co.—"Constellation or DC-4." (Downtown)
Velaye Air, Inc.—"East Coast best way to go"			Overland Overseas Tours —"PAA best way of going."
American Express—"West coast faster, more comfortable, better equipped" (Uptown)			Marti Travel Bureau—"East coast fastest and most direct route"
Marcha Owen Travel—"Mentioned El Interamericano but called it a PAA Service"			Ask Mr. Foster—"East coast best service to B.A."
Marsh Tours—"West coast service takes longer than east coast service"			Thomas Cook & Sons—"PAA east coast best service to B.A."
Ambassador Travel Agency, Inc.—"PAA use constellations all the way"			J.P.G., Jr.

[fol. 1149]

GOVERNMENT'S EXHIBIT 543

July 5, 1950

INDUSTRIAL DEPARTMENT

MEMORANDUM TO MR. B. H. OEHLERT, JR.

NO. 2948

PANAGRA SURVEY

This memorandum is concerned with the results of a survey designed to evaluate the attitude of selected travel agencies toward Panagra. More specifically, we were interested to learn:

1. What recommendations the agents make with respect to plane travel to South America.
2. The general familiarity of the agents with the various airlines going to South America.
3. The attitude toward and familiarity with Panagra.

Our point of destination was Buenos Aires, since it is served by all of the major air lines flying to South America and is generally considered at the cross-roads of South American plane travel. Our list of travel agents was originally taken from the Manhattan Classified Telephone Directory, consisting of approximately 300, which was then checked and refined by Grace Line. The final list consisted of 88 agents, presumably above the average, from the point of view of knowing about the facilities available for travel in South America.

[fol. 1150] We made our contacts by telephone and assumed the position of an independent businessman contemplating a flight to Buenos Aires. We were generally concerned with convenience, time of travel and cost. Other than that we had no predetermined ideas and requested their suggestions. Our objective, of course, was to obtain noted above. If this was not adequately brought out, then the agents' viewpoint with respect to the three objectives we attempted to lead the conversation by asking them directly about Panagra and its service in relation to the

other services available. Of the 88 contacts made, representative replies were obtained from 65, the balance was not able to give the information immediately or, as in most instances, the office was closed on that day (July 3rd).

Analysis of the answers received indicates that the agencies contacted are generally familiar with the air routes to Buenos Aires, but there is some confusion as to the desirability of either route. While most agents seem to be aware that Panagra is an affiliate of PAA, others show remarkable ignorance of Panagra's identity. The general pattern of answers to our inquiries seem to be the following:

1. By far the greater portion of agents are plugging the new Strato cruiser service to Buenos Aires via San Juan, on grounds of luxury, convenience, directness and saving of time.
- [fol. 1151] 2. Most agents suggest as second choice one of Pan-Americans other flights to Buenos Aires.
3. Most agents say the east coast is shorter to Buenos Aires since Buenos Aires is on the east coast, indicating lack of knowledge of geography.
4. With few exceptions, none recommended Broniff because it flies out of the Midwest. Some reported that Broniff has no service to South America.
5. None recommended PAEA, the Argentine line, although a few mentioned it as an alternative to PAA.
6. The majority recognize that Panagra is an affiliate of Pan-American, but they think in terms of one airline rather than two competing systems; consequently few proposed Panagra as such.

In response to our direct questioning about Panagra, the following answers are indicative of the agents' understanding of Panagra's position in South American plane service.

Panagra is the South American Division of Pan-American.

Panagra part of Pan-American.

Panagra same as Pan-American.

Panagra part of Pan American system.

Panagra works in conjunction with Pan-American.

Panagra combination of PAA and Grace Line.

Panagra must be something new.

Panagra an associate of PAA.

Panagra a subsidiary of PAA.

[fol. 1152] Panagra best and most direct.

Panagra flies in Latin America or part of Pan-American System.

Panagra is a little company owned by Pan-American.

Panagra best for West coast.

Pan-American controls Panagra space.

Panagra is the South American name for Pan-American and is linked up with Grace Steamship.

Pan-American's Interamericano is best way.

All lines are subsidiaries of Pan-American. Rates are the same so why not take the best.

Panagra did have best service between New York and Buenos Aires prior to PAA's new Strato cruiser flight.

Don't know anything about Panagra.

Didn't know that there was any difference between Pan-American and Panagra.

Oh yes! they also fly down.

There were a number of variations of the foregoing but in the overall they represent the consensus of the travel agents surveyed. It is obvious that the identity and individuality of Panagra are lost in the offices of the travel agencies and that plane travel to South America is automatically associated with Pan-American Airway.

A number of agencies stressed the tax savings involved in a direct flight out of New York via San Juan as against the flight to Miami. As was pointed out before, the Stratocruiser flight of Pan-American has apparently been well [fol. 1153] sold to the agencies with the result that they are pushing it. This may well mean some diversion of air travel from the west to the east coast.

It is apparent from this brief survey that Panagra's promotional activities are not sufficiently effective to compete with those of Pan-American and immediate steps should be taken to correct this situation, especially in the light of recent activity by competing airlines, as exemplified by Pan-American's Stratocruiser flight and Braniff's increased promotional campaign.

R. Matthes

jh

cc: Messrs. Grace, Shea (handwritten)

[fol. 1159]

GOVERNMENT'S EXHIBIT 547

Copied in Mr. Friendly's office for Messrs. Dean,
Balluder, Hamst.

NATIONAL AIRLINES
INCORPORATED

3240 N. W. 27th Ave.
Miami 37, Florida
December 15, 1948

Mr. Juan T. Trippe
President, Pan American World Airways, Inc.
Chrysler Building
135 E. 42nd Street
New York, N. Y.

Dear Juan:

Attached, please find copy of a letter to Mr. Harold J. Roig, President of Pan American Grace Airways, Inc., proposing an agreement for an interchange of equipment at Miami, Florida which would provide thru-service, without

change of planes, between the cities on National's routes north of Miami and the cities on Panagra's routes south of Miami in South America. This proposed thru-service would handle the majority, if not all, of Pan American's traffic through the Miami gateway to and from cities in South America.

For his information, I am sending a copy of this letter to Mr. Roig.

Awaiting your early reply, I am, with kind regards and greetings of the season,

Sincerely yours,

NATIONAL AIRLINES, INC.

G. T. Baker
President

[fol. 1160]

GOVERNMENT'S EXHIBIT 548

COPY

January 5, 1949

Mr. G. T. Baker, President
National Airlines, Inc.
3240 N. W. 27th Avenue
Miami, 37, Florida

Dear Ted:

Thank you for sending me a copy of your letter to Harold Roig proposing an interchange of equipment at Miami which, you state, would provide through service between cities on National's routes north of Miami and cities on Panagra's routes in South America.

You state in your letter that an interchange of equipment between Panagra and National at Miami "would handle the majority, if not all, of Pan American's traffic through the Miami gateway to and from cities in South America." Haven't you overlooked the bulk of traffic through the Miami gateway carried by Pan American to Colombia, Venezuela, Mexico, Central America, Nassau, Cuba, Ja

1256

maica, Haiti, the Dominican Republic, and other points in the Caribbean, for which through service is just as essential as for traffic to points on Panagra's west coast route in South America?

Sincerely

JTT:ke

[fol. 1161]

GOVERNMENT'S EXHIBIT 549

COPY

MR. G. T. BAKER, PRESIDENT
NATIONAL AIRLINES
3240 N. W. 27th Avenue
Miami, Florida

NZLGA

071930

1/49

RECEIVED YOUR TELEGRAM AFTER SENDING MY LETTER JANUARY 5. CANNOT BELIEVE THAT IN VIEW OF OUR DIFFERENT ROUTES RADIATING FROM MIAMI AND OTHER REGIONS MERE INTERCHANGE AGREEMENT WOULD IN ANY WAY MEET OUR PROBLEMS. HOWEVER, I AM ALWAYS GLAD TO SEE YOU IN NEW YORK FOR DISCUSSION ANY MATTERS OF MUTUAL INTEREST. REGARDS.

J. T. TRIPPE

[fol. 1162]

GOVERNMENT'S EXHIBIT 550

copy

January 6, 1949

Mr. G. T. Baker, President
National Airlines
3240 N. W. 27th Avenue
Miami 37, Florida

Dear Mr. Baker:

This is in reply to your letter of December 15th proposing equipment exchange between Miami and New York.

The day after I received your letter and of course before I had an opportunity to reply, the newspapers announced that this and similar letters addressed to other airlines had been made the basis of some petition or representation to the Civil Aeronautics Board and since then I have noted repeated reference to these letters in connection with C.A.B. Docket No. 3500. All this has left me in considerable doubt as to how to reply to your letter.

You are aware of Panagra's interest in giving its traffic through service to New York and how vitally important I consider this to be. You are also aware of the great efforts we have made through the years (always with National's opposition) to accomplish this. At the present time we are, as you know, seeking this objective through C.A.B. Dockets No. 1803 and No. 3500. In the former the C.A.B. Examiner has recommended the award to Pan American of a route between Miami and New York which would be available to Panagra under our Through Flight Agreement with Pan American. For many reasons a Panagra interchange with Pan American would be more satisfactory than with any other line.

Until the determination of the above proceedings, obviously neither you nor we would be in a position to reach any final agreement or even to determine if such an agreement as you propose would to any extent assist to accomplish either your own or Panagra's proposes or would be consistent with the desires of the Civil Aeronautics Board in the premises. Nor would we be willing to take any action which would in any way prejudice our position in the above proceedings.

If you wish to discuss the matter without prejudice I would be willing to meet with you or your representatives.

Yours very truly,

Harold J. Raig

1258

[fol. 1163]

GOVERNMENT'S EXHIBIT 551

Cable Address

"Natair"

NATIONAL AIRLINES

Incorporated

"Route of the Buccaneers"

*3240 N.W. 27th Ave.

Miami 37, Florida

January 14, 1949

Mr. Juan T. Trippe, President
Pan American World Airways System
135 East 42nd Street
New York 17, N. Y.

Dear Juan:

I refer to your letter of January 5 and your wire dated January 7, 1949, on the subject of possible interchange agreements between Panagra and/or Pan American and National.

In your letter of January 5 you cite your efforts to obtain a Miami-Boston route and ask if I have not overlooked the traffic carried by Pan American from Miami to Colombia, Venezuela, Mexico, Central America, Nassau, Cuba, Jamaica and the Dominican Republic. As you are aware, much of this traffic such as that from Mexico, Venezuela and Cuba and the Dominican Republic, already has one carrier service to New York. An interchange involving Panagra's planes would serve all Colombian traffic except that from Barranquilla. This would mean that the only traffic areas in Latin America left without direct service to Northeastern United States would be Jamaica, Haiti and Barranquilla. The CAB traffic survey for March, 1947, reveals that the combined through traffic between these areas and the New York-Washington areas represents only seven passengers per day in each direction. The most originating in any area would average less than 3 1/2 per day in each direction. (This is the Barranquilla, Kingston, Montego Bay, Camaguey traffic.)

Our conclusion that the Panagra entry would serve the bulk of the Latin America traffic now lacking one plane service to New York is borne out by these figures from the Board's survey. I am quite willing, however, to discuss an agreement where by National would operate one or more of Pan American's schedules through the Miami gateway to Washington and New York. Despite the position expressed in your wire of January 7th wherein you state your belief that "mere interchange agreement" would not meet your problems, we believe that upon reconsideration you will find that our proposal would provide a fully adequate pattern of through service for your Latin American [fol. 1164] traffic.

With best wishes, I am,

Sincerely,

NATIONAL AIRLINES, INC.

Ted

G. T. Baker, President

dlp

[fol. 1165]

GOVERNMENT'S EXHIBIT 552

—copy—

NATIONAL AIRLINES

Recd. Jan. 17, 1949

3240 N. W. 27th Ave.
Miami 37, Florida

January 14, 1949

Mr. Harold J. Roig
Office of the President
Pan American-Grace Airways, Inc.
7 Hanover Square
New York 5, N. Y.

Dear Mr. Roig:

I refer to your letter of January 6, 1949, in response to my proposal for an equipment interchange over National's

Miami-New York route. Frankly, I am disappointed that you feel it necessary to condition any such discussions on the proposition that any agreement would have to await decision in Docket 1803 and 3500. We are well aware of Panagra's long efforts, first, to enter the United States and later to obtain a New York entry, and we had felt that Panagra would be glad to accept National's practical suggestion for achieving this goal.

—We want to make it clear that we have proposed an interchange with your company not only because we felt it mutually advantageous for both carriers but to provide an improved service for the public. It is apparent from Pan American's past and present actions that it is willing that such improvements be made only on its own terms or not at all. Pan American's action in blocking Panagra's entry into Miami until virtually ordered to permit such entry and its generous action in agreeing to let Panagra use the Miami-New York route (which Pan American does not yet have) speaks for itself in this respect. In this connection, if you will examine the record in the Panagra Through Flight Agreement Case you will find that National did not take a position in opposition to the agreement unless the CAB believed it would block the approval of National's then pending Balboa application.

Although I am not quite clear as to the meaning of the last sentence of your letter in which you express a willingness to discuss the matter "without prejudice", I am desirous of discussing an interchange proposal to be implemented within a reasonable period of time and will attempt to meet the convenience of you or your representatives.

With best wishes, I am,

Sincerely,

NATIONAL AIRLINES, INC.

/s/ G. T. BAKER
G. T. Baker, President

[fol. 1166]

GOVERNMENT'S EXHIBIT 553

COPY

January 25, 1949

Mr. G. T. Baker
National Airlines, Inc.
3240 N. W. 27th Avenue
Miami 37, Florida

Dear Ted:

Juan has asked me to reply to your letter in answer to his letter of January 5 and wire of January 7.

You refer to certain figures from the Board's March 1947 survey. It is well known that these survey figures are nowhere near the full traffic movement between points in the interior of the United States and points abroad. However, even forgetting this major factor, our analysis of the March 1947 figures shows through traffic approximately twice as great as that stated in your letter. For September 1948, our figures, which we believe are still incomplete, show an even higher amount of through traffic for Pan American Airways alone. For example, these figures show an average of some 12 passengers a day in each direction for the Camaguey-Jamaica-Colombia area, in contrast to the 3½ for March, 1947, alleged in your letter.

Everyone knows that the northeastern area always has been and still is the great producer of traffic to Latin America. Even excluding the Panagra through flight and flights to Havana and Nassau, we are now operating five passenger schedules per day between Miami and the Latin American points mentioned in Juan's letter. You are going to have quite a task in convincing anyone that these schedules, and those operated by other lines, are filled primarily with traffic generated by Miami itself or by parts of the country that have never had the community of interest with Latin American possessed by the New York-Washington area.

With best regards, I am

Sincerely,

Howard B. Dean
Vice President

cc: H. J. Roig
VP Morrison—MIA
Ass't Treasurer

[fol. 1167]

GOVERNMENT'S EXHIBIT 554

Cable Address
"Natair"

NATIONAL AIRLINES INCORPORATED
"Route of the Buccaneers"

3240 N.W. 27th Ave.
Miami 37, Florida

February 24, 1949.

Mr. Howard B. Dean, Vice President,
Pan American World Airways System,
135 East 42nd Street,
New York 16, N. Y.

Dear Howard:

I refer to your letter of February 15, 1949. Frankly, I am very much disappointed with the statements and the attitude reflected in your letter in which you make it clear that Pan American has no desire to provide an improved service for its Latin American traffic except on conditions which will promote Pan American's selfish interests. National is sincere in its offer to provide improved through plane service by equipment interchange between points on the East Coast of the United States and points served by Pan American in Latin America.

Pan American's blunt refusal to give consideration to the interests of the traveling public in this instance is a clear continuation of the policy of Pan American over a long

period of time wherein it first blocked the entry of Panagra into the United States and later attempted to prevent creation of any one carrier service between the United States and overseas points. Your attitude appears to be inconsistent with the position which Pan American took in the *Latin American Case* illustrated by the following quotation from your Brief to the Examiner in that case: *** "As a practical matter, only a few points in Latin America would appear at present to warrant through plane service even from the Northeastern United States which are the heaviest traffic producers. In such cases, interchange of equipment offers very largely all the advantages that could be afforded by through plane operations by a single carrier. Pan American has long advocated such arrangements. It reaffirms that position."

Best regards,

Sincerely yours,

NATIONAL AIRLINES, INC.

Ted

/s/ G. T. BAKER, President.

[fol. 1168]

GOVERNMENT'S EXHIBIT 555

PAN AMERICAN WORLD AIRWAYS SYSTEM

Chrysler Building, 135 East 42nd Street, New York 17, N. Y.

February 28, 1949

copy

Mr. G. T. Baker, President

National Airlines, Inc.

3240 N. W. 27th Avenue

Miami 37, Florida

Dear Ted:

I have your letter of February 24th. I thought my last letter sufficiently indicated that we had had enough of this record-making correspondence which you began some months ago, but evidently you and John Cross decided there

had to be one more. Why don't you spend more time trying to get your airline on time and less time signing these letters written by your lawyers?

I am not going to take any time or ink answering the statements made in your letter, all of which we have heard many times before and which have been thoroughly answered in our correspondence and conversations. Therefore, you can consider this letter as a sign-off by me.

Looking forward to seeing this in the record in Docket 3500, I am

Sincerely,

Howard B. Dean
Vice President

Bee? President Trippe—NYK
Vice President Friendly—NYK

[fol. 1169]

GOVERNMENT'S EXHIBIT 556

February 28, 1949

W. R. Grace & Co.
7 Hanover Square
New York 5, N. Y.

Dear Sirs:

Referring to our letter to Pan American-Grace Airways of December 15, 1948, their reply of January 6, 1949 and ours of January 14, 1949 and confirming our recent conversations with you, we make you the following offer, subject to the provisions of paragraph 8 hereof and approval of the Civil Aeronautics Board where required:

1. We will enter into an "equipment interchange" agreement with Pan American-Grace Airways (Panagra) in the form attached hereto and into any further agreements which may be necessary to make such "equipment interchange" agreement operate provided Panagra executes such "equipment interchange" agreement not later than March 30, 1949.

2. Provided we enter into the above "equipment interchange" agreement with Panagra we are also prepared to enter into a substantially similar "equipment interchange" agreement with Pan American Airways, Inc. (PAA) provided PAA shall notify us in writing not later than March 10, 1949 of its intention to execute such agreement and provided we can agree with PAA on the terms of such agreement not later than March 30, 1949.

3. Until the "equipment interchange" agreement or agreements referred to above have been approved or disapproved by the Civil Aeronautics Board, we will not enter into any "equipment interchange" agreement providing for the operation of airplanes over our certificated routes or any part thereof, with any other carrier operating in South or Central America, except interchange agreements which would provide only through service between cities on National's routes and cities located within the continental United States on the domestic routes of such other carriers.

4. We hereby grant you an option to purchase 174,000 shares of our stock at \$5.50 per share, provided you exercise the same by payment in cash not later than March 30, 1949. Upon the approval by the Civil Aeronautics Board of the "equipment interchange" agreement referred to above between Panagra and ourselves, we will sell to you, and you will buy from us 346,000 shares (or 172,000 shares in the event you purchase the 174,000 shares mentioned [fol. 1170] above) of our stock at the book value thereof (as agreed to by the parties or in the event of failure to agree then as determined by independent auditors mutually agreed upon)

.

It is understood that if at the time you are to purchase the above 346,000 shares or 172,000 shares, Pan American shall not have entered into the "equipment interchange" agreement with us referred to in paragraph 2 or said agreement shall not have been approved by the Civil Aeronautics Board or PAA shall not have purchased the stock of our company referred to in Paragraph 5 below, you shall have the right at your option to reduce your total purchase of

our stock referred to in this Paragraph 4 to the 174,000 shares mentioned above, purchased by you not later than March 30, 1949.

5. In the event that PAA shall enter into an "equipment interchange" agreement with us as provided above and said agreement is approved by the Civil Aeronautics Board, PAA shall have the right until ten days after such approval to purchase from us and we will sell to them, at book value as defined in Paragraph 4 above, up to the same number of shares of our stock as you may purchase. We may also sell to PAA such additional shares of our company at such price and terms as we may mutually agree with them.

6. It is agreed that should you sell to Panagra all or any part of the number of shares retained by you after the exercise of the rights provided for in Paragraphs 4 or 5 such sale shall be on the condition that the voting rights of the shares sold to Panagra may be exercised by the President of Panagra in his absolute discretion.

being awarded the route between Miami and New York, Panagra shall have the right at its option upon thirty days notice to terminate any "equipment interchange" agreement entered into with us pursuant to this offer.

Very truly yours,

NATIONAL AIRLINES, INC.

/s/ G. T. BAKER

President

[fol. 1171]

GOVERNMENT'S EXHIBIT 557

G. T. Baker, Esq., President,
National Airlines Inc.,
3240 N. W. 27th Avenue,
Miami 37, Florida.

Dear Ted,

We hereby exercise the option given us in the first sentence of Paragraph Four of your letter of February 28th, to purchase one hundred seventy four thousand shares of the stock of National Airlines at \$5.50 per share.

We are prepared to make payment for these shares upon delivery of certificates therefor. We understand that you are endeavoring to call a meeting of your Board on March 4th to authorize the issuance of these shares, and that you will be ready to make delivery immediately following this meeting.

Very truly yours,

W. R. GRACE & Co.

(signed) J. P. GRACE JR.

President

[fol. 1172]

GOVERNMENT'S EXHIBIT 558

EXCERPTS FROM THE MINUTES OF A SPECIAL
MEETING OF THE BOARD OF DIRECTORS OF
NATIONAL AIRLINES, INCORPORATED—
MARCH 4, 1949

RESOLVED: that the offer of W. R. Grace & Co. to purchase 174,000 shares of the common stock of National Airlines, Incorporated for cash at the price of \$5.50 per share be and the same is hereby accepted and that the Commercial National Bank and Trust Company of New

York as transfer agent and The Chase National Bank of the City of New York as registrar of the common stock of the company be and they are hereby authorized, empowered and directed to do all things necessary in connection with the issuance, delivery, registration and countersigning of said 174,000 shares of common stock of National Airlines, Incorporated and certificates therefor so as to give effect to the sale of such shares of stock and the powers, duties, **directions and authority** heretofore granted to these institutions with respect to the transfer and registration of the company's common stock and otherwise be and they are hereby enlarged and extended to cover every act which may be required in connection with the 174,000 shares of common stock of the company, including but not limited to the registration and countersigning of common stock certificates issued pursuant to the consummation of this sale, it being the intention and purpose of this resolution that the resolution heretofore passed and adopted by the Board of Directors and now effective with respect to these institutions being invested with certain powers as the company's registrar and transfer agent be fully applicable to the 174,000 shares of the common stock and common stock certificates therefor just as though said resolutions specifically named and included therein the 174,000 shares of the common stock and common stock certificates therefor.

[fol. 1173]

GOVERNMENT'S EXHIBIT 559

29th March 1949

National Airlines, Inc.,
3240 N. W. 27th Avenue,
Miami 37, Florida.

Dear Sirs:—

On March 17, 1949 we acquired from you, pursuant to prior contract of purchase, 174,000 shares of National Airlines, Inc. common stock. We purchased these shares for investment and it is not our present intention to resell or redistribute the same by public sale.

There is a possibility, however, that we may decide to sell all or part of this stock to Pan American-Grace Airways, Inc., in which company we have a 50% interest, or a part of the stock to Pan American Airways Corporation, a company owning the other 50% of Pan American-Grace Airways, Inc.

Very truly yours,

W. R. Grace & Co.

(sgd) W. F. Cogswell
Vice President.

[fol. 1174]

GOVERNMENT'S EXHIBIT 560

—Copy—

MEMORANDUM OF UNDERSTANDING

Subject to the approval of the Civil Aeronautics Board:

1. National and Panagra will enter into an "interchange agreement" substantially in accordance with Paragraph "1" of National's Proposal to W. R. Grace & Co., dated February 28, 1949, except that the term of the "interchange agreement" shall be for a period terminating July 1, 1953 to be automatically extended to July 1, 1960 if Pan American and

Grace shall both exercise their respective stock options referred to in Paragraphs "4" and "5" below. Pan American will consent to such modification of the Through Flight Agreement dated July 30, 1946 as may be necessary for this.

2. National and Pan American will enter into an "interchange agreement" substantially in the form of the "interchange agreement" between National and Panagra except that

(a) The term of the "interchange agreement" shall be for a period terminating July 1, 1953 to be automatically extended to July 1, 1960 if Pan American shall exercise its stock option referred to in Paragraph "4" below,

(b) said "interchange agreement" shall provide that National shall operate three daily round trips between Miami, Washington and/or New York, any of such three daily trips to operate as through flights to appropriate points in Latin America served by Pan American.

[fol. 1175] 3. Upon approval by the Civil Aeronautics Board of the Panagra and Pan American "interchange agreements" with National, Grace will sell to Pan American 30/48ths of the 174,000 shares of National which Grace has purchased (108,750 shares) at cost plus interest at 4 per cent per annum from date of purchase by Grace to date of purchase by Pan American less any dividends received on said shares during said period.

4. National will sell to Pan American at Pan American's option as specified below 30/48ths of an additional 518,000 shares of the capital stock of National (323,750 shares) at book value at time of purchase determined as provided by Paragraph "4" of National's Proposal payable, at Pan American's option, in cash or in the capital stock of Pan American at average closing price of said stock on the New York Stock Exchange during the period of 60 days immediately prior to the date of purchase.

5. National will sell to Grace at Grace's option as specified below 18/48ths of said additional 518,000 shares of

the capital stock of National (194,250 shares) at book value at time of purchase determined as provided by Paragraph "4" of National's Proposal Payable in cash.

[fol. 1176] 6. Pan American and/or Grace may exercise their respective options to purchase National stock under Paragraphs "4" and "5" above at any time within eight months after approval by the Civil Aeronautics Board of the "interchange agreements" between National and Pan American and/or between National and Panagra respectively.

7. (a) The capital stock of National referred to above is understood to be the presently authorized stock of this company, plus a contemplated duly authorized increase of 500,000 shares.

(b) If between the date of this Memorandum and the exercise of any of the options to purchase National's capital stock as herein provided, National should require additional financing by the issuance of stock in excess of its presently authorized stock and said financing is not provided by Pan American and Grace then exercising their options, National may secure such financing by selling such additional stock as it may be authorized to issue provided, however, that in such case National shall hold sufficient unissued stock subject to further options in Pan American and Grace and Pan American and Grace shall have further options to increase their purchases of National stock so that at the conclusion of such additional financing and by the exercise of all options by Pan American and Grace, they [fol. 1177] shall own 30% and 18% respectively, of the then outstanding capital stock of National. If Pan American and/or Grace shall elect to purchase such additional stock, National will sell it to them at the price and on the terms herein provided.

(c) If between the date of this Memorandum and the exercise of any of the options to purchase National's capital stock as herein provided, National shall merge or consolidate with, or sell substantially all of its assets to, any other air carrier, or issue stock for any purpose other than as provided in paragraph (b), Pan American and Grace shall have further options to increase their purchases of stock so

as to permit them, by the exercise of all options to own 30 per cent and 18 per cent, respectively, of the outstanding stock of National or of the continuing company, as the case may be. If Pan American and/or Grace shall elect to purchase such additional stock, National will sell it to them at the price and on the terms herein provided.

(d) Between the date of this Memorandum and the exercise of any of the options to purchase National's capital stock as herein provided, National will not increase its authorized capital stock beyond the amounts required for issuance pursuant to paragraphs (b) and (c), and for the exercise of said options, and stock sufficient for the exercise of said options shall be reserved until the same are exercised or expire.

[fol. 1178] 8. All obligations of Pan American and Panagra hereunder are contingent upon the Civil Aeronautics Board, as a part of the proceeding seeking the approval of the above "interchange agreements," continuing its approval of the Through Flight Agreement now in effect between Pan American and Panagra, dated July 30, 1946, for a period expiring July 1, 1960.

9. Upon confirmation of the sales of shares pursuant to Paragraph "4" or "5" it is understood that subject to the approval of the stockholders of National in the form prescribed by the laws of Florida National's certificate of incorporation and By-Laws will contain whatever provisions may be necessary to fix the total number of directors at eleven and to insure at all times cumulative voting rights in respect to the shares purchased under said Paragraphs.

10. All of the parties hereto agree forthwith to enter into such complete agreements as may be necessary to accomplish the objectives of this Memorandum of Understanding and to cooperate in expeditious presentation of these agreements to the Civil Aeronautics Board and prosecution of the proceedings for the approval thereof with a view to securing the earliest possible approval by the Civil Aeronautics Board, and Pan American, Panagra and Na-
[fol. 1179] tional agree immediately to petition the Civil Aeronautics Board for termination of its investigation of

National in Docket 3500. In the event of the Civil Aeronautics Board's disapproval of these agreements, all obligations of the parties hereto shall terminate and National shall be under no obligation to repurchase, or Pan American or Grace under any obligation to tender to National, any shares of National's stock which Pan American or Grace may have theretofore purchased.

NATIONAL AIRLINES, INC.

By /s/ G. T. BAKER

W. R. GRACE & CO.

By /s/ J. P. GRACE, JR.

PAN AMERICAN AIRWAYS, INC.

By /s/ JUAN T. TRIPPE

PAN AMERICAN-GRACE AIRWAYS, INC.

By /s/ HAROLD J. ROIG

Dated March 30, 1949

[fol. 1180]

GOVERNMENT'S EXHIBIT 561

Minutes of Special Meeting of the Board of Directors of Pan American-Grace Airways, Inc. held at the office of Pan American Airways, Inc., 135 East 42nd Street, New York, N. Y. on the 31st day of March 1949 at 4:00 o'clock in the afternoon.

PRESENT:

Messrs. Erwin Balluder
Howard B. Dean
Henry J. Friendly
James V. Hayes
H. Preston Morris
B. H. Oehlert, Jr.
H. J. Roig

being a quorum of the Board.

Mr. H. J. Roig, President, presided. Mr. W. F. Cogswell, Secretary, acted as Secretary of the meeting.

There was presented to the meeting Memorandum of Understanding dated March 30, 1949 between National Airlines, Inc., W. R. Grace & Co., Pan American Airways, Inc., and Pan American-Grace Airways, Inc., executed in the name and on behalf of this corporation by Mr. Harold J. Roig, providing among other things for "Interchange Agreement" between National Airlines, Inc., and this corporation, and National Airlines, Inc., and Pan American Airways, Inc.

On motion duly made and seconded; it was unanimously

RESOLVED that the action of Mr. Harold J. Roig in [fol. 1181] executing, in the name and on behalf of this corporation, Memorandum of Understanding dated March 30, 1949 between National Airlines, Inc., W. R. Grace & Co., Pan American Airways, Inc., and Pan American-Grace Airways, Inc., be and the same hereby is in all respects approved, ratified and confirmed.

RESOLVED FURTHER that the officers of this corporation be and hereby are authorized, in the name and on behalf of this corporation, to enter into any and all agreements which may be necessary to carry out the objectives of said Memorandum of Understanding and cooperate in expeditious presentation to the Civil Aeronautics Board for approval of such of said agreements as require approval, provided any such agreements so signed shall have first been approved by Mr. Roig and Mr. Dean.

The President recommended purchase of an additional DC-6, either new or used, depending upon which could be purchased most advantageously. Such purchase was authorized, subject to the approval of Mr. Roig and Mr. Dean.

The officers were authorized, at such time as they should deem appropriate, to convert dollar fares into soles in the case of nationals or residents of Peru at the "street rate" of exchange rather than the official rate as at present.

There was discussion as to coach fares.

There being no further business, the meeting adjourned.

H. J. Roig
Chairman

W. F. Cogswell
Secretary

[fol. 1182]

GOVERNMENT'S EXHIBIT 562

January 21, 1949—Roig had lunch with Baker at Carlton discussing interchange as per previous correspondence. At same time Peter had lunch with Juan at India House in which Juan said was negotiating with "a domestic carrier" regarding interchange. Baker told Roig of his discussions with Pan American.

Week of January 24th—Shea and Roig discussed Pan American/National negotiations with Dean and Friendly; Roig and Peter discussed with Tripper, Dean and Friendly; and Roig, Peter and Shea had two or three talks with Baker and Scott.

February 8, 1949—(Date of Braniff informal conference when Roig went down with Friendly and Gessell). Friendly intimated that PAA/National discussions had terminated without result.

Week of February 7, 1949—Roig developed idea since National/PAA negotiations had broken off of trying to work out independently of Pan American, an offer from National to Grace covering both the Panagra and Pan American situations and endeavoring to bring Pan American in later. Shea advised Peter (who was on his South Carolina farm) of the plan. He approved it. Roig and Shea discussed with several Grace directors and arranged to meet Baker and Scott in New York the following week.

Week of February 14th—Roig, Peter and Shea met with Baker and Scott on two consecutive days and worked out outline of National proposal along above lines.

Weekend of February 26th—Roig, Peter and Shea spent weekend in Miami working out details with Baker and

Scott particularly the form of interchange agreement. Late in the afternoon of the 28th Baker signed and delivered the proposal.

March 2nd—Peter delivered National's proposal to Trippe and explained to him the circumstances under which it had been arranged. At the same time, Roig, Shea and Gesell informed Chairman O'Connell and Mr. Adams of the CAB regarding the proposal.

[fol. 1183] Week of March 14th—March 10th, the date fixed in the proposal for Pan American, having gone by without hearing from Pan American, Roig called up Dean and arranged a meeting to discuss Panagra's position with reference to National's proposal. Roig and Shea met with Dean and Friendly and following several meetings and telephone conversations a basis for further discussion with National was arrived at.

March 23rd—Peter and Shea went to Miami to discuss matter further with Baker and Scott and remained there until March 29th, Roig in the meantime carrying on the Pan American end of the discussion with Dean and Friendly.

March 29th—Panagra meeting to pass on proposal set for 4:00 o'clock. Early in the afternoon Peter and Trippe had conference on matter as a result of which basis of agreement was reached and Roig, Peter and Shea with Trippe and Dean went to Washington (Friendly was already there) and discussions were continued with Pan American and Baker leading to signing of Memorandum of Understanding dated March 30th.

[fol. 1184]

GOVERNMENT'S EXHIBIT 563

W. R. GRACE & CO. (CONN.)

Directors' Meeting—March 3, 1949

Purchase from National Airlines, Inc. of 174,000 shares of its unissued capital stock at \$5.50 per share was approved.

Directors' Meeting—April 7, 1949

The Chairman presented Memorandum of Understanding between National Airlines, Inc., W. R. Grace & Co., Pan American Airways, Inc. and Pan American-Grace Airways, Inc. dated March 30, 1949, executed in the name and on behalf of this corporation by Mr. J. P. Grace, Jr., providing among other things for "Interchange Agreement" between National Airlines, Inc. and Pan American-Grace Airways, Inc. and National Airlines, Inc. and Pan American Airways, Inc. and, upon the approval of said "Interchange Agreements" by the Civil Aeronautics Board, for the sale by this corporation to Pan American Airways, Inc. of 30/48ths of 174,000 shares of National Airlines, Inc. recently purchased. Execution of said Memorandum of Understanding by this corporation was approved and its officers were authorized to take any and all action necessary to carry out the same.

[Ed 1175]

GOVERNMENT'S EXHIBIT 364

Minutes of Adjourned Regular Meeting
of the Board of Directors of Pan American
airline Airways, Inc. held at the
office of Pan American Airways, Inc.
115 East 42nd Street, New York, N. Y.
on the 17th day of May, 1949 at 4:00
o'clock in the afternoon.

PRESENT

Messrs. Henry Ballou
Howard B. Dean
Henry J. Friendly
James A. Haver
H. H. [unclear]
H. [unclear]
H. J. [unclear]

President and General Manager of this corporation, in executing in the name and on behalf of this corporation Interchange Agreement with National Airlines, Incorporated dated May 11, 1949 (a copy of such agreement having been submitted to this meeting), providing for the charter to National Airlines, Incorporated of the aircraft of this corporation which have been operated by Pan American Airways, Inc. between the Canal Zone and Miami for operation by National Airlines, Incorporated over its Miami New York route, be and the same hereby is in all respects approved, ratified and confirmed.

On motion duly made and seconded, it was unanimously RESOLVED that the action of Douglas Campbell, Vice President and General Manager of this corporation, in executing in the name and on behalf of this corporation Supplement No. 5 dated May 11, 1949 to Through Flight Agreement between this corporation and Pan American Airways, Inc. (a copy of such Supplement No. 5 having been submitted to this meeting), amending said Through Flight Agreement in certain respects, including provision as to the further charter to National Airlines, Incorporated of the aircraft of this corporation which have been operated by Pan American Airways, Inc. between the Canal Zone and Miami for operation by National Airlines, Incorporated over its Miami New York route, be and the same hereby is in all respects approved, ratified and confirmed.

...

H. J. Bay

Chairman

W. J. Cooper

Secretary

[fol. 1188]

GOVERNMENT'S EXHIBIT 566

November 9, 1950

MEMORANDUM

Baker called me this afternoon and proposed that W. R. Grace & Co. deliver to National a letter to the effect that W. R. Grace & Co. is willing to release National from the Grace option to acquire additional shares of National stock, the Panagra National and Pan American National interchange contract remaining in full force and effect; provided Pan American will also release National from the option now running to Pan American to acquire National stock.

I said that this would be most difficult but that we would think it over and I would consult my associates and would call him either tomorrow morning in Washington or later in Miami. He said that he is returning to Miami tomorrow morning and will probably be in New York sometime next week.

I told him, of course, that I saw the point of his request but asked him what he thought would happen from there on. He then said that he did not see how if Grace were willing to waive its option Pan American could insist on retaining its own option in effect. I told him I did not see anything in this but he assured me as he assured Peter that the thing could be worked out.

I asked him if has had any conversations with members [fol. 1189] of the Board and he said that he has not. I also asked him if he has had any conversations with Pan American and he said he has not.

The conversation was cordial.

A. B. S.

[fol. 1190]

GOVERNMENT'S EXHIBIT 567

November 13, 1950

MEMORANDUM

Telephone conversation with
G. T. Baker - November 13, 1950

Pursuant to my conversation of November 9th with Mr. Baker I telephoned him today to say that after serious consideration W. R. Grace & Co. could not comply with his request that it deliver to National Airlines a letter waiving Grace's option on the terms he had proposed. He then asked me if I could give him my verbal assurances that the option would be waived on the same conditions and I replied that I could not give him such verbal assurance either. I said that the most I could tell him was that should he persuade Pan American to waive its option to acquire additional National stock Grace would give its sympathetic consideration to similar action on its part.

A. B. S.

[fol. 1191]

GOVERNMENT'S EXHIBIT 568

CONFIDENTIAL (Handwritten)

December 20, 1950

MEMORANDUM

At a meeting in the Carlton Hotel in connection with the Air Transport Association Annual Convention on December 13, Eddie Rickenbacker approached me and stated he had heard that Baker was not going through with the National, Panagra, Pan American contract. He suggested to me and I having lunch in New York the following week to discuss the possibility of a cooperative agreement with Eastern in the event the National deal blew up.

Eddie Rickenbacker and I were guests of Pete Jones at a large Christmas luncheon party today. Following the luncheon Eddie and I discussed the National situation and confirmed that Baker yesterday had formally advised us

he was withdrawing from the National contract on account of being unwilling to go through with the stock option phase of the deal. Also that he had formally advised Grace in similar vein and had confirmed his action to the CAB.

I told him that public counsel for the CAB had indicated to us they were confused as to the position this left the CAB in, and that we felt public counsel would shortly ask the Board for instructions.

Eddie indicated he thought it would be distinctly to Eastern's advantage to make an interchange with Pan American although he still was not interested in an interchange to Mexico City (notwithstanding the fact that we might make such arrangement with C & S), which I told him we were considering). I told him that National had indicated they still favored an interchange independent of the stock option feature.

I asked him in view of the obvious traffic advantage of a deal with Pan American and Panagra, whether he would now favor an interchange at Miami to one daily Panagra DC-6 schedule, one through PAA Connie schedule, and one Boeing shuttle. (handwritten: JTT 12 20 50 on a basis similar to that offered by Nat!)

Eddie advised he would like to study the matter further, but definitely he would favor "an equitable deal" and that he would let me know tomorrow afternoon if, in principle, he felt the above arrangement good business for Eastern.

J.T.T.

J.T.T.

CC: Mr. Friendly

[fol. 1192]

GOVERNMENT'S EXHIBIT 509

MEMORANDUM OF DISCUSSIONS WITH
W. R. GRACE & CO.

(Dictated January 20, 1951)

Mr. Trippe and Mr. Friendly called on Mr. Peter Grace, President of W. R. Grace & Co., and Mr. Andrew Shea, Vice President of W. R. Grace & Co. and President of Pan American-Grace Airways, at the Grace office at about 10:15 A.M. on Friday, January 19, 1951.

Mr. Trippe said that he and Mr. Friendly had come down to give what he believed, and hoped would be considered, some very good news. This was that, as a result of negotiations with Eastern Air Lines, which had been initiated at Captain Rickenbacker's suggestion, it had proved possible to work out arrangements whereby Panagra's and Pan American's planes could be operated from Miami to New York over Eastern's route. Mr. Trippe said that this gave Panagra what it had long wanted, namely, the right to have its airplanes operate directly into New York. Mr. Trippe felt certain that the relationship with Eastern would prove much more satisfactory than one with National would be since Mr. Baker's conduct had shown that he had no respect for contracts.

Mr. Shea inquired whether there was any stock arrangement with Eastern. Mr. Trippe replied that there was not. Mr. Shea inquired why we would be willing to make an arrangement with Eastern without stock participation, whereas we were not willing to do this with National. Mr. Trippe said that he felt that Eastern was an entirely different sort of company from National. It was one thing to deal with National when it appeared that Pan American and Grace, as large stockholders and with substantial board representation, could build National up. If, however, there was to be nothing but interchange, Eastern was clearly the better bet.

Mr. Grace said it was necessary to take a long view of these matters. Mr. Baker would not last forever, and neither would Captain Rickenbacker. National would ultimately get a professional management with which it would be possible to work. Mr. Friendly responded that this was looking a long while ahead; that Mr. Baker was always talking about quitting and going fishing but that [fol. 1193] he showed no signs of doing this; and that even if National had the same kind of management as Eastern, which it now did not, Eastern would be a stronger and better partner. Mr. Grace said that Eastern was no better than a merger of National and Delta. Mr. Friendly said this was going still more into the future.

Mr. Friendly explained in somewhat more detail the nature of the arrangements with Eastern. He also said that in his opinion an arrangement with Eastern was much more likely to win approval from the C.A.B. than one with National since it was not open to the objection of running counter to the intention of the C. A. B. to build up the connecting service of National and Braniff at Havana. Mr. Grace referred to the fact that Braniff in its original application had not sought Havana. Mr. Friendly said that Braniff had an answer to this, namely, that the important thing was not what Braniff had applied for but what the Civil Aeronautics Board had done.

Mr. Grace said that an arrangement with Eastern was less attractive than one with National in that it left National free to work with Braniff. Mr. Friendly said that, apart from the fact that an arrangement with National might not be approved for precisely this reason, he personally had always feared that if the arrangements with National were approved, the gap between Braniff and Eastern might be closed, and that such an alliance would be more serious to Panagra and Pan American than one between Braniff and National.

There was considerable discussion as to how long it would take to get the interchange agreement with Eastern approved. Mr. Grace and Mr. Shea talked of periods as long as two years. Mr. Friendly challenged these statements, saying that the long delay in the National case had

been due largely to the difficulties in arriving at agreements with National rather than to the C. A. B. procedures. Furthermore, the record which had been made in the National case would be of great help with respect to a hearing in the Eastern case since the basic traffic data was the same. Mr. Trippe emphasized that a part of the Eastern arrangement was a leasing of planes on regular schedule but not for through service, which Eastern thought could perhaps be put into effect immediately. Mr. Friendly expressed some doubts on this score.

[fol. 1194] Mr. Grace stated that he and Mr. Shea were not in a position to give any answer to Mr. Trippe's and Captain Rickenbacker's proposal; but they would have to think about the matter and talk it over between themselves.

...

Mr. Grace raised question as to Panagra's being permitted to apply for a certificate expanding its operations from Lima to Rio. He made a long speech, citing figures, as to how Pan American and other airlines had expanded, whereas Panagra's business had not shown any growth in recent years. Mr. Friendly said that this was irrelevant, since Pan American had been free from the beginning to extend its lines to other parts of the world whereas Panagra had been formed to operate in a particular locality. W. R. Grace & Co. was similarly free to expand and had been doing so. Mr. Trippe added that so far as relative growth was concerned, a much fairer basis of comparison would be between Panagra and Pan American's operations on the East Coast of South America. Mr. Grace said he felt sure that the figures would show that even there Pan American had been doing better than Panagra. He called for the figures. These, however, showed the contrary.

Mr. Trippe stated that he did not consider a Lima-Rio operation a good one for an American-flag carrier from the longrun standpoint. He said that Pan American had not favored this operation by Panair do Brasil. However, it had not proved possible for that company to resist the desires of its own government for the inauguration of service between Brazil and other South American countries. Actually Panair's first extension had been to Buenos Aires where it was directly competitive with Pan American.

Mr. Grace complained of Panagra's loss of Rio business and of the fact that in all probability Panagra was going to be forced out of Brazil altogether. Mr. Friendly countered by the statement that Panagra's participation in Rio business had never been a part of the original plan but had come about in 1940 as a by-product of the Government's desire to have Panagra replace the German-controlled aviation company in Bolivia. It was as a result of this that a connection had been established between Panagra and Panair do Brasil at the Brazilian-Bolivian border.

[fol. 1195] Mr. Trippe stated that the Lima-Rio movement was one which would ultimately be handled predominantly by South American carriers, and that he felt the South American governments would insist on this. Mr. Grace countered that three-fourths of the Lima-Rio movement consisted of stop-over traffic in Lima enroute to or from the United States and said he had figures to prove this. Mr. Friendly said that if this were true, the Panair operation between Rio and Lima should be a substantial assistance to Panagra since it made possible a joint effort by Panair and Panagra to sell this stopover business which should afford very effective competition to Braniff. Mr. Grace demurred to this, stating that Americans would not fly in planes of a South American company. Mr. Shea disagreed with Mr. Grace. He felt that the Panair operation would result in Panair and Panagra taking away substantial business from Braniff, and that the foreign character of Panair was no real obstacle since it was regarded as part of the Pan American Airways System. Mr. Shea stated he had no doubt that Panair's Lima-Rio service would put a substantial "crimp" in Braniff's operations. Indeed, he felt that Panair's service to Lima and the improved PAA service between Rio and New York would reduce Braniff's load factor between Rio and Lima to a figure as low as between Lima and Buenos Aires. There was considerable discussion of this, ending with Mr. Shea making a \$50 bet with Mr. Grace that this would occur in the last six months of 1951.

At the conclusion of the meeting, Mr. Grace repeated that he would have to consider the matter with his as-

sociates. It was agreed that the meeting should be resumed at 5:30 P.M. at the Pan American office uptown.

Mr. Grace telephoned Mr. Trippe shortly after 5:30 P.M. He stated that they had been discussing the matter with their lawyers; that their conclusion was that the arrangement with Eastern was designed to delay the operation of Panagra's airplanes into New York; that his lawyers told him that it would take two years to get such an arrangement approved; and that the arrangement upset all of Grace's plans for Panagra. Mr. Trippe replied that all these charges were wholly unjustified and that the arrangement with Eastern was designed to give Panagra access for its airplanes to New York in the most effective possible way. Mr. Grace requested that he be given a set of the [fol. 1196] papers to examine over the weekend and arranged to meet again Monday at 9:15 A.M. at the Chrysler Building. Mr. Trippe immediately sent the papers to Mr. Grace with a note stating that it was his understanding with Captain Rickenbacker that for the time being the papers were to be regarded as confidential.

(Dictated January 23, 1951)

On the morning of Monday, January 22, Mr. Grace and Mr. Shea again met with Mr. Trippe and Mr. Friendly.

Mr. Grace requested Mr. Shea to state their position.

Mr. Shea began by saying that they considered that the agreement which had been negotiated with Eastern was a remarkable achievement. If it had been available two years ago, they would have been for it. Now, however, they were concerned with the length of time which it would take to get such an agreement approved. Their lawyers had advised them that this would take two years. They feared that before that was over Braniff's application for a direct certificate to New York would have been heard and granted. Mr. O'Connell, who was now acting as counsel for Grace, had told them that there was a great sentiment in the Civil Aeronautics Board for granting this application of Braniff. This was because there was fear that Braniff would be starved out if it had only the middle

west business, with the eastern business going to Panagra and Pan American, and the far western business going to Pan American on its Guatemala route and thence via Panagra. Mr. Shea asked whether Pan American was aware of this.

...

Getting back to the main line of the discussion, Mr. Shea concluded by saying that Grace was, therefore, against the proposed agreements with Eastern because of the delay which would be incident to arranging for Panagra's planes to enter New York over Eastern's route.

Mr. Friendly went back to the objection made on the score of Braniff's certificate application and asked whether it was seriously suggested that Braniff, which now had direct access to the central United States, would be given [fol. 1197] a certificate for direct service to the Washington-New York area, which had been historically served by Pan American, but that Pan American would continue to be held off at Miami. He reminded Mr. Shea and Mr. Grace that Pan American also had an application for an international certificate to New York which was filed a few days after Braniff's. Mr. Grace said they were not that pessimistic. On the other hand, it would be a very bad thing for Braniff to get into New York, even if Pan American did also. They felt that once Panagra's aircraft were operating into New York, they could forestall a Braniff certificate application.

Mr. Friendly said that this was exactly what had always troubled him about the National deal, namely, that it was too rough on Braniff. So long as Braniff had the connection with National at Havana, which the Board had intended Braniff to have, there was a good deal of strength in the argument that Braniff should not have anything more. If, on the other hand, this connection was taken away, then he felt the "starvation" argument would be advanced with far more force than it could otherwise be.

Mr. Grace said that he believed in taking one thing at a time, that it was their policy to fight Braniff every inch of the way, and that if this course were followed, a time might come when the Government might reverse its policy with respect to having Braniff in South America.

Mr. Shea and Mr. Grace then launched an attack on Mr. Rickenbacker. They said they did not consider him any easier to deal with than Mr. Baker. They cited particularly his testimony in Docket 3500 in which he accused certain Grace officers and directors of going out and buying National stock in anticipation of a market rise. Mr. Trippe and Mr. Friendly said that there was no doubt that Captain Rickenbacker was a tough fighter who sometimes said and did things which were not liked by his opponents. On the other hand, there was quite a difference between a man who threw his weight against opponents in a fight where he owed them nothing and a man who would not stick to an agreement and made disagreeable remarks about persons with whom he was supposed to be working in close association. Mr. Trippe said that, in his long experience with Captain Rickenbacker, he had never known Captain Rickenbacker to go back on an agreement.

[fol. 1198] Mr. Shea criticized the proposed interchange agreement on the ground that the exclusive clause would not prevent an Eastern-Braniff combination at Havana. Mr. Friendly answered that such a combination was not possible at the present time since Eastern did not operate to Havana and would not be likely to be given that right if it had an interchange with Pan American. However, he did not believe there would be any great difficulty in having this clause amended if Grace so desired.

Mr. Grace repeated that their prime interest was to get Panagra's airplanes into New York. Mr. Friendly said there was no difference of opinion between Grace and Pan American on this; that we wished to accomplish this objective also and wished to do it in the most satisfactory and sound way from a long term standpoint. The advantages of a contract with Eastern appeared to him so great as compared to a similar one with National that it was hard to believe that such an arrangement would not be accepted by Grace if the interests of Panagra were what they really had at heart.

Mr. Grace and Mr. Shea then launched on an attack on Eastern's services. They criticized Eastern's flight attendants, saying that these were rude and that they would not like to have this the last impression of a Panagra

passenger. They also criticized Eastern's food. Mr. Trippe suggested that perhaps Captain Rickenbacker would be willing to let Panagra supply its own food, and he would be glad to take this up. Mr. Friendly pointed out that the agreement gave Panagra the right to supply all attendants except one, and he found it difficult to believe that the difference in quality between one Eastern flight attendant and a National flight attendant, if there be any at all, was really a serious matter.

Mr. Trippe said that the fundamental point was that a deal with Mr. Baker without a substantial stock interest was not a deal at all, as had been proven by the long road of difficulties which both Pan American and Grace had experienced. Mr. Friendly added that Pan American had done everything possible to preserve the arrangements with National and to get them approved. He cited as the latest instance that when it became evident that Mr. Baker was trying to take a walk by refusing to agree on a rate [fol. 1199] of return for the Pan American airplanes, he had gone down to Washington to appear with Mr. Grace and Mr. Shea before Chairman Rentzel.

Both Mr. Grace and Mr. Shea recognized that Pan American had loyally supported the National arrangements. Mr. Grace stated that "no one could have asked for better associates than Pan American had been" and that the Pan American officers had behaved like gentlemen in connection with the whole matter. They also stated that they did not for one moment condone Mr. Baker's wenching on his agreements. However, they did not consider Eastern preferable to National and they were concerned about the timetable.

Mr. Friendly said that he thought there should be more discussion on the timetable, since he could not see that the difference in this respect between the two proposals was anything like what had been talked about. The National deal was itself a long way from approval. It had not yet approached the briefwriting stage and would not for some little time. The only added delay in the arrangement with Eastern would be the difference in time required to get the two proceedings to the end of a hearing. After that,

the timetables should be the same, with the Eastern proceeding, if anything, having the edge since it did not involve all of the other questions that were in Docket 3500. While the conference was going on, he had jotted down some figures as to the length of time which he thought it would take to get the two proceedings to the close of a hearing, starting from the date when agreements were signed with Eastern or revised agreements were signed with National. In the former case, he figured 20 days to prehearing conference, 60 days more for exhibits, 20 days more for rebuttal exhibits, 10 days more for the commencement of a hearing and 15 hearing days, for a total of 125 days to the close of the hearing. In the National case, he figured 10 days to a further prehearing conference on the subject of a fair rate of return, 15 days for exhibits, 10 days for the beginning of a hearing, and he had allowed nothing for the length of the hearing, for a total of 35 days. This meant a differential of 90 days between the two. If it were thought his estimates on Eastern were unduly liberal, another month would mean a difference of only 4 months between the two proceedings. He thought this inconsequential in view of the greater value of an arrangement with Eastern and the greater likelihood that it would ultimately be approved. He repeated that, in his [fol. 1200] judgment, the arrangement with National stood an excellent chance of not being approved because of the force of Braniff's arguments. Should this occur, Panagra and PAA would then be in a position, many months hence, not only of having to start over again, but of being in an exceedingly bad bargaining position with Eastern.

Mr. Grace again objected to any delay. He mentioned the fact that Pan American had not immediately accepted the deal that Grace had arranged with National in the winter of 1949. Mr. Friendly said that any delay at that time was due only to W. R. Grace & Co.; that Pan American by the end of January had arrived at a deal with National which Mr. Scott had recommended, but that Mr. Grace had then entered the situation and had given Mr. Baker the idea that he would play Grace against Pan American and get a better deal thereby. In fact, Mr. Friendly continued, Mr. Baker would never have repudiated his agreements

now if he had not felt sure that Grace would go along. Mr. Grace said that they had never indicated to Mr. Baker that they would do this and gave his "word of honor" to that effect. Mr. Friendly said that he had not accused Grace of having said this to Baker and had no basis for doing so, but repeated that in his opinion Mr. Baker would not have repudiated the agreements if he had not felt sure in his own mind that Grace would go along with him anyway. Mr. Baker would have been entirely justified in this belief, as was shown by the attitude presently being expressed. Mr. Friendly said he simply could not understand how an organization of the repute of W. R. Grace & Co. could consider the kind of appeasement that was incident with continuing to deal with Mr. Baker after the latter had broken his promises.

Mr. Grace said he would not delay one week to have an agreement with Eastern rather than National. Mr. Friendly said that he could not believe that this was really Grace's position, particularly since Grace must realize it was not able to decide this by itself, and that he would therefore like to get back to the claim of a two year delay in approval of the Eastern agreement and find out just how Grace's lawyers had worked this figure out. Mr. Shea asked whether Mr. Friendly's timetable had not assumed that the Board would give the Eastern interchange agreement a priority on its calendar. Mr. Friendly said he had assumed this, but felt entirely justified in doing so since the Board had always given priority to interchange agreements and [fol. 1201] there was no reason to suppose it would make an exception of this one. Mr. Shea agreed he would discuss the matter further with Panagra's counsel, Mr. Burns, and find out the basis for Mr. Burns' two-year estimate. Mr. Friendly said he would be glad to join in these discussions. It was left that after Mr. Shea had talked with Mr. Burns, he would report further.

N.J.F.

[fol. 1202]

GOVERNMENT'S EXHIBIT 570

PAN AMERICAN-GRACE AIRWAYS, INC.

Office of the President

7 Hanover Square

New York 5, N. Y.

January 25, 1951

Honorable D. W. Rentzel, Chairman

Civil Aeronautics Board

Washington 25, D. C.

My dear Mr. Chairman:

Re: Docket No. 3500

As you well know, Panagra has regarded as of primary importance to the public that it be permitted to have through service between Buenos Aires and Washington and New York via the West Coast of South America.

In attempting to bring about such a development Panagra and W. R. Grace & Co. have utilized every proper means, both judicial and administrative. We always believed that the best solution for Panagra was the direct extension of its route from Balboa through an amendment of its certificate. To date this has been impractical because of the problems of Panagra's divided ownership.

It was for the attainment of this objective of through service that Panagra and W. R. Grace & Co. entered into the interchange and collateral contract now pending before the Board in the above-entitled docket.

[fol. 1203] Under date of May 11, 1949 the following agreements were executed:

1) Interchange Agreement between Panagra and National Airlines Inc. (hereinafter called "National")

2) Interchange Agreement between Pan American Airways (hereinafter called "Pan American") and National

3) Option Agreement for the acquisition of National stock between Pan American and National.

4) Option Agreement for the acquisition of National stock by W. R. Grace & Co. (hereinafter called "Grace").

5) Agreement between Grace and Pan American for the sale of National stock by Grace to Pan American.

These agreements were filed with the Civil Aeronautics Board and application was made to the Board on May 11, 1949 for approval of the agreements above designated as 1, 2, 3, and 5. All of the agreements are incorporated herein by reference.

By their terms all of said agreements are interdependent; i.e., none of said agreements is to become effective until and unless all of said agreements are approved by the Civil Aeronautics Board.

Public hearings have been held with respect to such applications and have been concluded except with respect to [fol. 1204] the rate of return payable by National to Pan American under the Pan American/National Interchange Agreement as part of the charter hire of Pan American equipment. The Board by Order dated October 23, 1950 directed National and Pan American to submit that issue to the Board for determination pursuant to the terms of the Pan American/National Interchange Agreement.

Subsequent to the issuance of the Order of October 23rd National Airlines delivered to Pan American and to Grace the letters transcribed below:

December 14, 1950.

Mr. Juan T. Trippe, President
Pan American-World Airways System
135 East 42nd Street,
New York 17, N. Y.

Dear Juan:

Not having heard from you in reply to my letter of November 29th, this is to notify you that the stock option agreement between Pan American and National,

dated May 11, 1949, is terminated and of no further force or effect. We do believe that an interchange of equipment between Pan American and National and between Panagra and National would be in the interest of both the public and the companies. Accordingly, we have advised the Civil Aeronautics Board of our willingness to go through with the interchange agreements when approved by the Board.

Very sincerely,

G. T. Baker, President
National Airlines, Inc.

[fol. 1295]

December 14, 1950

Mr. Andrew Shea, Vice President
W. R. Grace & Company,
7 Hanover Square,
New York, N. Y.

Dear Andy:

Herewith is a copy of letter which I am today sending to Juan Trippe in which we notify him, as we are notifying you herewith, that the stock option agreement, dated May 11, 1949, is terminated and of no further force or effect. We do believe that an interchange of equipment will be in the interest of both the public and the companies. Accordingly, we have advised the Civil Aeronautics Board of our willingness to go through with the interchange agreements when approved by the Board.

Very sincerely,

G. T. Baker, President
National Airlines, Inc.

Under date of December 19, 1950 Pan American replied to National's letter as follows:

December 19, 1950

Mr. G. T. Baker, President
National Airlines, Inc.
3240 N. W. 27th Avenue
Miami, Florida

Dear Ted:

I have for acknowledgment your letter of December 14, 1950, and your note of November 29, 1950, the latter of which I have held to present at a meeting of our directors today.

Our directors were astonished to learn of the position which your company has taken. They are quite at a [fol. 1206] loss to understand how you believe that National is in a position by unilateral action to terminate the contracts made by National, Panagra, W. R. Grace & Co. and Pan American in the spring of 1949, which the four companies have united in presenting to the Civil Aeronautics Board for approval and which the Board has recognized as all inter-dependent.

Sincerely,

J. T. Trippe,
President

and under date ~~7th~~ December 29, 1950 Grace replied to National's letter as follows:

December 29, 1950

George T. Baker, Esq.
President
National Airlines Incorporated
3240 N. W. 27th Avenue
Miami 37, Florida

Dear Ted:

This will acknowledge receipt of your letter of December 14th with which you enclosed a copy of your letter to Juan Trippe of the same date and in which you also notified us that the stock option agreement

between W. R. Grace & Co. and National dated May 11, 1949 is terminated and of no further force and effect. We must advise you that we do not recognize the right of National unilaterally to terminate in whole or in part the agreement referred to.

Sincerely yours,

J. P. Grace, Jr.

At a meeting held on January 22, 1951 between J. P. Grace, Jr., President and a Director of Grace, and myself representing Grace and Panagra respectively, and Juan [fol. 1207] T. Trippe, President and a Director and Henry J. Friendly, Vice President and a Director of Pan American, Mr. Grace and I stated to Messrs. Trippe and Friendly that Grace as owner of 50% of Panagra's stock and I as President of Panagra consider it in the best interests of Panagra that rather than risk the failure of all the inter-related agreements Pan American and Grace should accept the attempted cancellation by National of the National Pan American and National Grace stock option agreements and should so advise the Civil Aeronautics Board at the same time requesting the Board to proceed to a determination as to whether or not the Pan American National and Panagra National Interchange Agreements are in the public interest and should be approved. Messrs. Trippe and Friendly did not accept this proposal. Mr. Grace and I then proposed that Panagra advise the Board that Panagra accepts the attempted cancellation by National of the National Pan American and National Grace stock option agreements and that Panagra is prepared, upon approval by the Board of the Panagra National Interchange Agreement as filed with the Board for approval, to carry out the terms of such agreement regardless of whether or not the collateral agreements or any of them should become effective. [fol. 1208] Messrs. Trippe and Friendly declined to accept this proposal also.

They proposed as an alternative that Panagra should withdraw from the National agreements and execute an equipment interchange agreement with Eastern Air Lines

on substantially the same terms and conditions as those of the National Interchange. This proposal was rejected by Mr. Grace and myself.

The reasons for our rejection of the proposal were two-fold: In the first place, a new proceeding instituted by application for Civil Aeronautics Board's approval of Pan American/Eastern and Panagra/Eastern interchange agreements would probably extend over a period of approximately two years and would, therefore, involve undue delay in the establishment of a through one-plane service with Panagra equipment between Buenos Aires and New York and Washington via the West Coast of South America, a service provided by no carrier today. In the second place, we felt that ultimate approval of the contemplated interchange with Eastern might raise new issues which would be the subject of serious controversy with the outcome in doubt. On the other hand, the Board now has before it the Panagra/National Interchange Agreement. All the preliminary proceedings and public hearings have been completed and final determination of whether or not the [fol. 1209] agreement should become effective might reasonably be expected within a relatively short time. Moreover, upon approval of the interchange, establishment of the through one-plane service could be effected promptly. Then there would be for the first time between the points mentioned a through one-plane service really competitive with the through one-plane service operated by Pan American between New York and Buenos Aires via San Juan and the East Coast of South America since 1946.

The evidence presented at the public hearings with respect to the proposed Panagra/National Interchange, I submit, conclusively establishes that the public interest requires the immediate establishment of through one-plane service between Buenos Aires and New York and Washington via the Canal Zone and the Republics of Ecuador, Peru and Chile. There cannot be, I further submit, any clearer or stronger case made out for the establishment of this service regardless of what evidence might be introduced in a new proceeding. Thus from the viewpoint of the public interest nothing would seem to be gained by postponing

until some indefinite time in the future a result which could be accomplished promptly in Docket 3500.

[fol. 1210] As appears from the text of National's letters dated December 14, 1950 addressed to Pan American and Grace respectively, National has already stated its readiness and willingness to carry out the terms of the Interchange Agreements now before the Board independently of the stock option agreements with Pan American and Grace which in such letters National has attempted to cancel.

Speaking on behalf of Grace, the owner of 50% of Panagra stock, and on behalf of the Panagra Directors nominated by Grace, and as President of Panagra, I therefore respectfully request that the Board issue an order in this proceeding approving the Panagra National Interchange Agreement dated May 11, 1949 and the Supplements thereto, except such part thereof as purports to make such agreement conditional upon the approval of the collateral agreements.

Respectfully yours,

/s/ ANDREW B. SHEA

Andrew B. Shea

President

Pan American-Grace Airways, Inc.

cc: All Airline Parties

W. R. Grace & Co.

Public Counsel

1300

[fol. 1211]

GOVERNMENT'S EXHIBIT 571

PAN AMERICAN WORLD AIRWAYS SYSTEM
CHRYSLER BUILDING, 135 EAST 42nd STREET,
NEW YORK 17, N. Y.

January 29, 1951

Mr. Peter Grace, President,
W. R. Grace & Co.,
7 Hanover Square,
New York 4, N. Y.

Dear Peter:

When you and Andy Shea left Henry Friendly and myself after our meeting of January 22 to discuss the interchange arrangements with Eastern, following National's repudiation of its agreements with Pan American, Panagra and Grace, our understanding was as follows:

Andy was to find out from counsel for our joint company (in discussions in which Henry Friendly offered to join) the detailed support for their belief that proceedings before the C.A.B. for the approval of these arrangements with Eastern would take two years. He would then communicate further with us. We on our side undertook to ascertain whether Eastern would meet your objection that the exclusive clause, as originally drawn, would leave Eastern free to make an interchange arrangement with Braniff if Eastern were ever extended to Havana, and your desire that Panagra should be able to put its own food service on the aircraft chartered to Eastern between Miami and New York.

The next thing we heard from you was the receipt on January 26 of a mimeographed letter written to Chairman Rentzel of the Civil Aeronautics Board by Andy Shea in the name of Pan American-Grace Airways, Inc. This was done without any authority from the Board of Directors of that Company. The letter came to us not as a joint stockholder in Panagra, and not to any of our directors

on the Panagra board, but simply as a party to Docket 3500.

I am enclosing a copy of a motion which Pan American is filing with the C.A.B. to dismiss the proceedings for the approval of the various agreements between National, on the one hand, and Pan American, Panagra and W. R. Grace & Co., on the other, which the Civil Aeronautics Board has recognized to be inter-dependent and important features of which National has recently repudiated. I am also enclosing an application being filed by [fol: 1212] Pan American and Eastern for the approval of an equipment interchange agreement. You will note that Eastern has met your two criticisms of the previous form of the agreement which I have referred to above. We have also modified the agreement so that instead of requiring acceptance by Panagra within 30 days after execution, as was previously provided, this opportunity will remain available to Panagra from now on until 30 days after approval by the Civil Aeronautics Board.

We sincerely trust that on further consideration W. R. Grace & Co. will come to the same conclusion as has Pan American, namely, that the great advantages of this arrangement with Eastern are such as to require acceptance by Panagra, if Panagra's best interests are the guide for Grace's action.

I am sending a copy of this letter to Chairman Rentzel.

Sincerely,

Juan Trippe
J. T. Trippe,
President

GOVERNMENT'S EXHIBIT 572

COPY

February 5, 1951

Mr. A. B. Shen, Vice President
W. R. Grace & Co.
New York, New York

Dear Andy,

Re: Docket #3500

We were surprised to read your letter of January 25th to Chairman Rentzel of the C.A.B. While the letter was signed by you as President of Pan American-Grace Airways, Inc. it was written without discussion with or authority of the Board of Directors of that Company and indeed came to our attention only because it was served on Pan American Airways as a party to Docket #3500 and via the Aviation Daily. Board of Directors' authority, of course, would be required for any such interchange agreement with National as you propose.

• • •

People do not generally continue doing business with those who have broken contracts with them. Here is peculiarly little reason for doing this since Pan American has succeeded in arranging for itself and Panagra an interchange agreement with Eastern which is far more satisfactory than the one you now propose for Panagra with National. You yourself stated that you consider this agreement with Eastern a remarkable achievement and that you would have favored its acceptance had it been available two years ago when we concluded our agreement with National, since repudiated by that company.

[fol. 1214] We can see no sound reason from Panagra's standpoint (as distinguished from that of W. R. Grace & Co. as owner of 174,000 shares, or 17.4%, of National's stock) why Panagra should not accept the Eastern interchange agreement now.

We know now, that any arrangement between our companies and National is open to serious attack on the ground, pressed so vigorously at the hearing in docket #3500, that it ran counter to the position of the C.A.B. laid down in its decision in the *Latin American Air Service Case*, No. 6 C.A.B. at 915, that National should cooperate with Braniff at Havana.

• • •

We believe Panagra's aircraft could be brought into New York sooner and better by an interchange arrangement with Eastern rather than by a new agreement with National which for the reason indicated is so likely to be disapproved by the C.A.B.

We are concerned lest in proposing an arrangement with National, W. R. Grace & Co. may be motivated by its own ership of the 174,000 shares of the stock of National acquired despite Grace's control of the steamship line linking New York with the West Coast of South America without approval of the C.A.B. in March 1949 and now representing an investment of nearly 2½ million dollars. This special interest of W. R. Grace & Co. however should not be a factor when the question is what is in the best interests of Panagra.

[fol. 1215] When you and Mr. Grace left Mr. Tripp and Mr. Friendly on January 22nd it was understood there were to be further discussions of the Eastern agreement after we had had an opportunity to find out whether Eastern would meet the objections which you and Mr. Grace had raised to the provisions of the then draft as to exclusivity and food service. These provisions we are glad to report have been modified to meet your views. Furthermore as you know the agreement with Eastern has been changed so as to be open to acceptance by Panagra at any time up to a date 30 days after approval by the C.A.B. We hope our Grace colleagues on the Panagra Board will join with us in action that will permit such acceptance at any early date and thus expedite the operation of Panagra's planes into New York.

Following your example we as Directors of Panagra are sending copies of this letter to Chairman Rentzel, to Public Counsel and to all airline parties to Docket #3500.

Sincerely yours,

/s/ Erwin Balluder
Henry J. Friendly
John C. Leslie
Wilbur L. Morrison

Directors Pan American-Grace Airways Inc.

[fol. 1216]

GOVERNMENT'S EXHIBIT 573

PAN AMERICAN-GRACE AIRWAYS, INC.

Office of the President
7 Hanover Square
New York 5, N. Y.

February 9, 1951

Erwin Balluder, Esq., Vice President
Pan American World Airways, Inc.
135 East 42 Street
New York 17, New York

Dear Erwin:

The letter of February 5th addressed to me by Henry Friendly, John Leslie, Wilbur Morrison and yourself arrived at the office while I was absent in California and I did not receive it until my return yesterday.

I thoroughly dislike the practice of writing letters for the record but I feel impelled to reply to your letter of the 5th in order to keep the record straight.

Your colleagues and yourself state that my letter of January 25th to Chairman Rentzel was written without discussion with or authority of the Board of Directors of Panagra. That statement is, of course, correct. However, discussion with your colleagues and yourself as Directors of Panagra or a request that you authorize the action taken

would have been an empty formality in view of the position taken by Messrs. Trippe and Friendly in the conversation had with them by Mr. Grace and myself on January 22nd. It is hardly necessary to say that it was a foregone conclusion that your colleagues and yourself as Directors of [fol. 1217] Panagra would not have taken a position different from that taken by Messrs. Trippe and Friendly.

You further state in your letter that Board of Directors' authorization would be required for "any such interchange agreement with National as you propose". I am advised by counsel (other than Panagra counsel) that such authorization would not be required under the present circumstances should I have proposed a new agreement with National. However, I have not proposed a new agreement but have merely asked the Civil Aeronautics Board to approve our existing one except such part of the agreement as was included therein for the sole benefit of Pan American.

You state that there is no disagreement between the Pan American Directors of Panagra and the Grace Directors of Panagra as to the desirability of working out arrangements for the through operation of Panagra's planes to New York but that you disagree radically as to how this could best be accomplished under the circumstances that have arisen. With respect to these statements I refer to the long history of the efforts and constant pressure of the Grace Directors of Panagra over the period of the last fifteen years to bring about the operation of through service by Panagra between the U.S. and the South American terminus of Panagra. In the course of this period and indeed until 1946 when the Through Flight Agreement was [fol. 1218] signed the Pan American Directors of Panagra successfully resisted those efforts by refusing to authorize the application by Panagra of an extension of its route for the stated reason that:

"In the opinion of this Board* an extension of Pan American-Grace Airways, Inc. from Balboa to Miami or New York would not be in the best interests of Pan American-Grace Airways Inc. and likewise would

* Board of Pan American Airways

not be in the best interests of this Corporation or its stockholders and that consequently the Representatives of this Corporation on the Board of Directors of Pan American-Grace Airways Inc. be instructed not to take action authorizing an application for such an extension by that Company."

(See Minutes of Panagra Directors' Meeting dated June 5, 1946).

It was only under the pressure of the implications of the decision by the Second Circuit Court of Appeals and of the statement of the President of the United States and of the Civil Aeronautics Board in the Latin American Route Case that Pan American finally entered into the Through Flight Agreement with Panagra as a substitute for a route extension to Miami. Since 1946, however, Pan American has been operating a through one-plane service between New York and Buenos Aires via San Juan and the East Coast of South America and I think it is fair to say that the same competitive considerations which prompted Pan American's opposition to the extension of the Panagra route to [fol. 1219] the U.S. are still controlling as a guide for the position of the Pan American Directors of Panagra in this whole matter.

You say in your letter that I stated that I considered Pan American's agreement with Eastern a remarkable achievement. I do consider it a remarkable achievement in view of the unsuccessful efforts previously made by Pan American to reach agreement with Eastern. You further credit me with the statement that I would have favored acceptance of an agreement with Eastern had it been available two years ago when we concluded our agreements with National. I made no such statement.

It is very clear that given a choice between going ahead with the National interchange on the one hand, and on the other entering into a new agreement with Eastern Air Lines, the only sound and practical policy to pursue from the viewpoint of Panagra's interest and that of the public is to carry to a conclusion with the utmost despatch the proceedings looking toward the approval of the National in-

terchange. With respect to the National interchange, agreement has been reached on all points, public hearings have been completed (except perhaps on the single point of the agreed rate of return on investment) and the only remaining steps are the filing of the Examiner's Report and consideration and decision by the Board. On the other hand the execution by Panagra of a new agreement with Eastern Air Lines would mean the institution and completion of a whole new proceeding with serious doubt as to the outcome. The other carriers concerned would oppose with the utmost vigor the approval of such agreements and in so doing they would unquestionably employ every possible device to make the proceedings as protracted as possible. This is standard procedure as you well know.

As a basis for your disagreement that a great length of time, say two years, would be required for approval of the Eastern interchanges (assuming that such approval would be forthcoming) you cite the periods required for approval of the Panagra Pan American interchange, the American Delta interchange and the Capital National interchange. The Panagra Pan American Through Flight Agreement had practically been invited by the Board and was actively opposed only by Eastern Air Lines; the American Delta agreement received only temporary approval pending the outcome of the Southern Service to the West Case (Docket 1102 et al.). On the other hand the TWA Delta agreement (S.C.A.B. 857) required 18 months for approval. The TWA Continental agreement was filed June 1950 and no date has as yet been set for public hearing. The American Braniff agreement was filed September 1950 and no date has been set for public hearing.

I submit that on the basis of experience an impartial opinion would be that Mr. Friendly's estimate of 15 months for the conclusion of the Eastern interchange proceeding [fol. 1221] is optimistic and that my estimate of two years is not pessimistic but is also on the optimistic side. I submit that there is nothing unreasonable in my estimate of the time factor involved in this discussion.

You state that when Mr. Grace and myself left Messrs. Trippe and Friendly on January 22nd it was understood that there were to be further discussions of the Eastern agreement. I must make it clear that as far as Mr. Grace and I were concerned there were to be no such further discussions. The observation with respect to the exclusivity was merely a casual one on my part and the remarks with respect to food service made by us were incidental.

After full consideration of all the circumstances neither the other Grace Directors on the Panagra Board nor myself find any reason to modify the position taken in my letter of January 25th to Chairman Rentzel.

I am sending copies of this letter to Chairman Rentzel to Public Counsel, and to all airline parties to Docket 3500.

Sincerely yours,

/s/ ANDREW B. SHEA

Andrew B. Shea

President

Pan American-Grace Airways, Inc.

cc: Messrs. Henry J. Friendly
John C. Leslie
Wilbur Morrison

[fol. 1224]

GOVERNMENT'S EXHIBIT 575

COPY

February 21, 1951

Civil Aeronautics Board
Washington 25, D. C.

Re: Docket No. 3500

Dear Sirs:

The Answer of National Airlines, Inc. in the above-described proceeding, served February 12, 1951, is founded on the altogether false premise that what has been done and said on behalf of W. R. Grace & Co. and the Panagra directors nominated by Grace constitutes action by Panagra as a company. The Answer refers to Mr. Shea's letter to

the Board, dated January 25, 1951, and states that since both Panagra and National desire that the Board approve the interchange agreement, there is no basis for dismissal of the agreements." Panagra as a company has expressed no such desire. Mr. Shea has conceded (letter to me dated February 9, 1951) that his letter of January 25th "was written without discussion with or authority of the Board of Directors of Panagra." Hence it can only be considered as having been written on behalf of Grace, also a substantial stockholder in National, and of the Panagra directors nominated by Grace. The Panagra directors nominated by Pan American take an entirely different view.

National, by its Answer, has admitted that the Pan American National interchange and the stock acquisition agreements cannot now be consummated and that the Board ought to dismiss the proceedings relating thereto. The parties have always clearly understood, and the agreements specifically provide, that the Panagra National interchange is interdependent with these agreements and with the Through Flight Agreement between Pan American and Panagra. Although the Through Flight Agreement can be severed, the other agreements cannot be separated from it or from each other and they cannot be rewritten without the consent of all parties. No such consent has been given or is likely to be forthcoming. Hence, by admitting that the Board should not go forward with the other agreements, National has admitted as well that the Board cannot go forward with the Panagra National interchange.

In any event, it is impossible to see how an interchange respecting the widely separated services of National and Panagra would be practical in the absence of an interchange agreement between National and Pan American. The operations between Balboa and Miami are Pan American's, not Panagra's, and the aircraft are under Pan American's control. A very large percentage of the traffic moving over that route and carried in Panagra aircraft operated by Pan American pursuant to the Through Flight Agreement consists of traffic originating in or destined to Balboa which is wholly Pan American's and not Panagra's.

We are at a loss to understand what legitimate reason there can be for involving Panagra in all these difficulties when Panagra has available a simple and straightforward interchange arrangement with Eastern which we feel confident will merit speedy approval by the Board.

A copy of this letter has been sent to each person served with a copy of National's Answer.

Very truly yours,

/s/ E. BALLUDER

Erwin Balluder
Vice President and Director
Pan American-Grace Airways, Inc.

[fol. 1226]

GOVERNMENT'S EXHIBIT 576

March 22, 1951

Dear Jim,

DOCKET 3500

Dear Jim,

The Civil Aeronautics Board on March 19th issued an Order the substance of which is set forth in the enclosed summary.

The most important effect of the Order, insofar as Panagra is concerned, is that the Board will determine promptly and without formality of further hearing or submission of an Examiner's Report whether or not the Panagra/National agreement should be approved and become operative. We estimate despite this shortcut in procedure that such approval will not be forthcoming in less than between three and six months.

As you will see from the enclosure such approval if given will be temporary pending the outcome of a new proceeding in which the Board will pass on the following matters:

(A) Whether or not Pan American and National should be ordered to enter into a compulsory interchange operation between New York and Balboa using only the Panagra aircraft operated under the Panagra Pan American Through Flight Agreement.

(I presume that the reason why it is suggested that this interchange will be made between Pan American and National rather than Panagra and National is to avoid the question of whether on arrival at Miami our aircraft are under the control of Panagra or under that of Pan American).

[fol. 1227] (B) Whether or not Eastern's route should be extended from Miami to Havana or Braniff's route extended to Miami and if either such extension is granted whether or not a compulsory interchange between Eastern and Braniff should be ordered for through service between New York and Balboa.

(C) Application for approval of the Pan American Eastern interchange.

With respect to (B) it would, of course, have been much more satisfactory if a possible interchange between Eastern and Braniff for through New York Balboa operation had not been injected into the proceeding. However, the question of an extension of the Braniff operation in some form or other to New York has been with us for some time and it is a foregone conclusion that in view of the complicated nature of the new proceeding it will probably be a couple of years before the Board reaches a final decision in this as well as on the other matters involved in the new proceeding.

In the light of this if we get our temporary approval of the Panagra National interchange within, say, three to six months we shall start operating immediately and a lot of things may happen before the new proceeding is concluded.

I feel that on the whole the Board's Order constitutes a great step forward toward the realization of our ambition to start the through operation to New York.

[fol. 1228] With the foregoing before you you will be in a position to post all interested members of our flight and ground personnel as to what this new Order means.

Sincerely yours,

s/s ANDREW B. SHEA

Enc.

Mr. James W. Walker, Jr.
Pan American-Grace Airways, Inc.
Lampa 590
Lima, Peru

[fol. 1229]

GOVERNMENT'S EXHIBIT 577

Minutes of Adjourned Regular Meeting
of the Board of Directors of Pan American-Grace Airways, Inc. held at the office
of Pan American World Airways, Inc.,
135 East 42nd Street, New York, N. Y.
on the 30th day of March, 1951 at 11:00
o'clock in the forenoon.

PRESENT:

Messrs Erwin Balluder
Howard L. Clark
Henry J. Friendly
John C. Leslie
B. H. Oehlert, Jr.
Andrew B. Shea

being a quorum of the Board.

Mr. Shea, President, presided. In the absence of the Secretary, Mr. Clark acted as Secretary of the meeting.

At the time of the February 5 meeting, the directors nominated by Pan American had felt that consent by Panagra that its aircraft, which were chartered to Pan American for operation to Miami and return under the

Through Flight Agreement, should be further chartered to Eastern for operation to New York and return as contemplated by the agreement between Eastern and Pan American dated January 27, 1951, would be more in the interests of Panagra than any modified form of the agreement of May 11, 1949 with National, for the following reasons, among others:

(1) National's course of conduct, including particularly its repudiation of its contractual obligations, showed that National was not a desirable company with which to deal. [fol. 1230] (2) An arrangement with National was inconsistent with the route pattern laid down by the Board at the direction of President Truman in May, 1946, whereby National was to cooperate with Braniff at Havana, and therefore was not likely to be approved.

(3) An arrangement with Eastern, on the contrary, would be directly in line with President Truman's plan and would give Panagra and Pan American greater traffic support, thus counterbalancing in part the advantage which Braniff had from its own network of routes in the United States.

Mr. Friendly stated that in his opinion, which he understood was shared by the other directors of Panagra who had been nominated by Pan American Airways, the case for the adoption of these resolutions had been strengthened by the order of the Civil Aeronautics Board, E-5205, dated March 16, 1951. He called attention particularly to the statements on page 13 of the Board's opinion that institution of a Panagra-National interchange or a compulsory through service between Pan American and National would destroy the "connecting link" between National and Braniff which was an integral part of the plan of Latin American air service adopted by the Board in compliance with President Truman's directive in May, 1946, and that "under such circumstances it might be necessary to extend Braniff to Miami, or Eastern to Havana, so that those carriers will connect with one another". He called attention also to the Board's statement that "this would not only serve [fol. 1231] to compensate for any diversion which Eastern

and Braniff would necessarily suffer from a Pan American-Panagra-National interchange, but would also preserve the competitive balance desired by the President and the Board and required by the Civil Aeronautics Act".

Mr. Friendly said that this made it clear that the insistence of the Grace representatives on dealing with National rather than Eastern was leading to a situation in which Braniff, in addition to the support of its own network of routes from Houston to Denver, on the one hand, and Chicago, on the other, (which now appeared likely to be supplemented by a through service agreement with Continental and American to Los Angeles and San Francisco) might have the support of Eastern's system, whereas Panagra would have the support only of National's East Coast route. By insisting on a course in violation of the plan laid out by the Board and the President in 1946, the Grace directors would thus seriously prejudice Panagra. The gain of a few months' time in establishing through-plane service, even if such a gain were attainable, would not justify action so detrimental to the true interests of Panagra, however it might be to the interests of W. R. Grace & Co as owner of 174,000 shares of National's stock.

Mr. Friendly thereupon moved the following resolutions, which were seconded by Mr. Balluder:

RESOLVED: That the proper officers of this Company be authorized and directed to give notice, pursuant [fol. 1232] to paragraph 2 of the Agreement between Eastern Air Lines, Inc. and Pan American World Airways, Inc. dated January 27, 1951, of this Company's desire to have aircraft of Panagra which have been chartered to Pan American pursuant to Pan American-Panagra Through Flight Agreement for through operation by Pan American between the Canal Zone and Miami, Florida, leased to Eastern for through operation by Eastern over Eastern's Miami-Washington-New York-Boston route, as provided in said agreement; and

FURTHER RESOLVED: That, in accordance with said paragraph 2 of said Agreement, the proper officers

of this Company be and they are hereby authorized and directed to enter into appropriate contracts with Eastern and Pan American of the nature contemplated by said Agreement (including in the case of Pan American any and all modifications of the Through Flight Agreement which are necessary or appropriate) so that aircraft of Panagra shall be included among the interchange aircraft which Eastern agrees to lease for through operation as provided in said Agreement; and

FURTHER RESOLVED: That is not in the best interests of Panagra to consent to any modification of the Agreement dated May 11, 1949 between Panagra and National Airlines, Inc. so that said Agreement might become effective otherwise than as therein provided, or that said Agreement should be approved by the Civil Aeronautics Board, either temporarily or otherwise.

Vote being had, said resolution failed to pass, Messrs. Balluder, Friendly and Leslie voting in favor and Messrs. Clark, Oehlert and Shea voting against.

Mr. Friendly referred to a letter written by Mr. Shea under date of October 18, 1950 to Chief Examiner Francis W. Brown of the Civil Aeronautics Board enclosing a copy of Supplement No. 2 (Revised) to the abovementioned interchange agreement with National Airlines, purporting to be signed on behalf of the Corporation by Howard L. Clark, Vice President, referring to a statement of counsel for National Airlines that this agreement was subject to [fol. 1233] approval by the Board of Directors of Panagra, and characterizing that statement as being "in error and due to a misunderstanding so far as our company is concerned as neither that agreement nor the enclosed which supersedes it are subject to the approval of our Board". Mr. Friendly stated that in the view of the Pan American directors the statement by National's counsel that Supplement No. 2 required approval by Panagra's Board of Directors was not in error or due to any misunderstanding, as such approval was required under general principles of corporate law, under the agreement between W. R. Grace

& Co and Pan American Airways Corporation dated July 30, 1946, and under the resolution of Panagra's Board of Directors dated March 31, 1949, wherein any and all agreements necessary to carry out the objectives of the Memorandum of Understanding dated March 30, 1949 between National Airlines, Inc., W R Grace & Co, Pan American Airways, Inc and Pan American-Grace Airways, Inc required approval by Mr. Roig and Mr. Dean—these gentlemen then being the senior representatives of the two owners on Panagra's Board of Directors. He stated that this agreement had been signed without any prior notice to the Pan American directors, that no representative of Pan American had ever approved it, and that he had vigorously objected to it immediately on the original agreement's being brought to his attention.

Mr. Friendly thereupon moved the following resolution, which was seconded by Mr. Balluder:

[for 234] **RESOLVED:** That Supplement No. 2 (Revised) to the Interchange Agreement between National Airlines, Inc and Pan American-Grace Airways, Inc, purporting to be signed in the name of Pan American-Grace Airways, Inc by Howard L. Clark, Vice President, was executed by said Howard L. Clark without authority and that said agreement was not and is not the act or deed of this Corporation or in any way binding thereon.

Vote being had, said resolution failed to pass, Messrs Balluder, Friendly and Leslie voting in favor and Messrs Clark, Oehlert and Shea voting against.

Mr. Balluder brought up the question of counsel to represent Panagra in proceedings in respect of or arising out of Civil Aeronautics Board Order E-5205. As appeared from Mr. Burns' letter of August 9, 1949 to the Civil Aeronautics Board, Mr. Burns' retainer had been as trial counsel in Docket No. 3500, which had now been dismissed. Mr. Burns had been retained at a time when the two owners of Panagra were avowedly pursuing a common objective, and this retainer had been agreed on by the Pan American

directors in deference to the request of their Grace colleagues and despite the then expressed preference of the Pan American directors that Panagra should be represented by counsel who was less closely affiliated with either of the two owners. Since that time Mr Burns had become a director of W R Grace & Co and thus was disqualified from representing Panagra in a matter where W R Grace & Co had special interests which it might be pursuing to the prejudice of the true interests of Panagra. Mr. Balluder [fol. 1235] thereupon moved the following resolution, which was seconded by Mr. Leslie:

RESOLVED: That the retainer of John J Burns, Esq., as trial counsel for this Corporation in Docket 3500 does not include any proceedings to be taken in respect of or arising out of Civil Aeronautics Board Order E-5205, and that Panagra should be represented in any such proceedings by disinterested counsel.

Vote being had, said resolution failed to pass, Messrs Balluder, Friendly and Leslie voting in favor and Messrs Clark, Oehlert and Shea voting against.

Mr Friendly stated that in view of the position taken by the Grace directors, the directors nominated by Pan American felt that they would be compelled to retain counsel to represent the Corporation who would defend what they deemed to be the best interests of the Corporation as distinguished from the special interests of W R Grace & Co. He thereupon moved the following resolution which was seconded by Mr. Balluder:

RESOLVED: That in view of the position taken by the Grace directors and of the belief of the Pan American directors that W R Grace & Co has special interests which are adverse to those of the Corporation, the directors nominated by Pan American World Airways, Inc be authorized to retain counsel for the Corporation in order to present the true interests of the Corporation in any proceedings to be taken in respect of or arising out of Civil Aeronautics Board Order E-5205.

Vote being had, said resolution failed to pass, Messrs Balluder, Friendly and Leslie voting in favor and Messrs Clark, Oehlert and Shea voting against.

There being no further business, the meeting adjourned.

Andrew B. Shea
Chairman

W. F. Cogswell
Secretary of the Meeting

[fol. 1236]

GOVERNMENT'S EXHIBIT 578

TULLAROAN — LIMA — No. 14

from NEW YORK

April 13, 1951 10 pm

1	fourteen	22	members
2	O'Connell	23	participating (in)
3	reports	24	issued
4	CAB	25	an
5	action	26	opinion -(of)
6	today	27	and
7	as follows quote	28	order
8	palmetto	29	unanimously
9	nine	30	approving (of)
10	Joe	31	the
11	reports	32	interchange -s
12	CAB	33	agreement -s between
13	action	34	Panagra and
14	to-day	35	National
15	as follows quote	36	on a/an
16	this afternoon	37	temporary
17	the	38	basis
18	CAB	39	pending
19	with	40	disposition (to)
20	all	41	of new
21	five	42	omnibus -s

- | | | | |
|----|----------------------|-------------|--------------------|
| 43 | proceeding | 79 | and all |
| 44 | recently | 80 | parties |
| 45 | instituted | 81 | are |
| 46 | sentence | 82 | given |
| 47 | the | 83 | thirty days |
| 48 | Board -s | 84 | within |
| 49 | similarly | 85 | which to |
| 50 | approved | 86 | except to |
| 51 | an | 87 | decisions |
| 52 | extension (of) | 88 | and to |
| 53 | the | 89 | file |
| 54 | through | 90 | briefs |
| 55 | flight -s | 91 | in connection with |
| 56 | agreement -s between | 92 | it |
| 57 | Pan American | 93 | sentence |
| 58 | and Panagra | 94 | the |
| 59 | as well as | 95 | Board |
| 60 | the | 96 | imposed (by) |
| 61 | companion | 97 | some |
| 62 | agreement -s between | 98 | conditions |
| 63 | Pan American | 99 | to its |
| 64 | and | 100 | interchange |
| 65 | Grace | [fol. 1237] | |
| 66 | ntence | 101 | approval |
| 67 | the | 102 | but |
| 68 | Board -s | 103 | initial |
| 69 | decision | 104 | examination (of) |
| 70 | is | 105 | them |
| 71 | comma | 106 | does not |
| 72 | as | 107 | indicate |
| 73 | required by law | 108 | that they be |
| 74 | comma | 109 | are of |
| 75 | issued | 110 | great |
| 76 | as a | 111 | women? |
| 77 | tentative | 112 | unquote |
| 78 | opinion -s | | |

[fol. 1238]

GOVERNMENT'S EXHIBIT 579

Minutes of Annual Meeting of the Board of Directors of Pan American-Grace Airways, Inc., held at the Office of Pan American World Airways, Inc., 135 East 42nd Street, New York, N Y on the 10th day of May, 1951 at 4:30 o'clock in the afternoon.

PRESENT:

Messrs Erwin Balluder
Howard L. Clark
Henry J. Friendly
John C. Leslie
B. H. Oehlert, Jr.
Andrew B. Shea

being a quorum of the Board.

Mr Shea, President, presided. Mr Cogswell, Secretary, acted as Secretary of the meeting.

The President called for nominations for President. Mr Clark nominated Mr Shea; Mr Oehlert seconded the nomination.

Mr Friendly stated that Mr Shea was not a director of Panagra nominated by Grace and approved by Pan American within the meaning of Section 3 of the Agreement dated July 30, 1946.

Mr Friendly thereupon nominated Mr Wilbur L. Morrison for the office of President, which nomination was seconded by Mr Leslie. Mr Friendly stated that Mr Morrison had authorized him to state that, if elected, he would resign all offices that would create interlocking relationships within Section 409 of the Civil Aeronautics Act, pending reelection [fol. 1239] to such offices subject to Civil Aeronautics Board approval and action on an application therefor.

Mr Oehlert stated that Mr Friendly's statement and his nomination of Mr Morrison were out of order under Section 3 of the Agreement dated July 30, 1946 for the following reasons: First, such agreement requires that the Pan American votes be cast for the person nominated by Grace and approved by Pan American, which approval shall not be unreasonably withheld, and, second, Mr Morrison is not within the class described in such agreement.

Vote being had, neither Mr Shea nor Mr Morrison was elected, Messrs Clark, Oehlert and Shea voting for Mr Shea and Messrs Balluder, Friendly and Leslie voting for Mr Morrison.

Mr Shea thereupon stated that inasmuch as neither candidate had received a majority, he continued in office as President under Section 10 of the General Corporation Law of the State of Delaware.

Mr Friendly stated that this point would be decided by another tribunal and that he did not wish to remain silent as it might be construed as an agreement to Mr Shea's statement.

Mr Friendly thereupon moved the following preambles and resolution which were seconded by Mr Balluder:

WHEREAS, by Order Serial No. E-5282 the Civil Aeronautics Board has tentatively proposed to grant temporary approval to an agreement between this corporation and National Airlines, Inc., dated May 11, 1949, on certain conditions set forth in the said Order; and

WHEREAS, by reason of National's repudiation of other agreements made simultaneously with the said agreement of May 11, 1949, all of which agreements were made to carry out a Memorandum of Understanding dated March 30, 1949, between Pan American Airways, Inc., W. R. Grace & Co., National Airlines, Inc., and this Corporation, and of action taken by the Civil Aeronautics Board as a result of such repudiation, the said agreement of May 11, 1949 cannot become effective

in accordance with its terms and would require modification in essential respects both because of the foregoing and because of conditions proposed by the Board if these should be included in any final order; and

WHEREAS, in any event, for reasons indicated in the notice from Pan American World Airways, Inc., dated April 25, 1951, this Corporation is not in a position to charter aircraft to National at Miami for operation over National's Miami-New York route,

NOW, THEREFORE, be it resolved that by reason of the foregoing and of the opportunities afforded to this Corporation by the agreement between Pan American World Airways, Inc. and Eastern Air Lines, Inc., dated January 27, 1951, (1) this Corporation should not hold itself out as being able or desiring to charter the aircraft leased by it under its Through Flight agreement with Pan American World Airways, Inc. to National Airlines, Inc. for operation over National's Miami-New York route otherwise than on the specific terms and conditions embodied in the agreement dated May 11, 1949, and (2) no officer of the Corporation shall enter into any agreement or understanding, oral or written, with National Airlines, Inc., modifying the said agreement dated May 11, 1949, or take any action to lease aircraft of the Corporation to said National Airlines, Inc. otherwise than on the specific terms and conditions embodied in the agreement dated May 11, 1949.

Vote being had, said resolution failed to pass, Messrs Balluder, Friendly and Leslie voting in favor and Messrs Clark, Oehlert and Shea voting against.

[fol. 1241] Mr Friendly moved that the minutes of this meeting be promptly prepared and submitted to the directors for approval, and that a copy of such minutes and of the minutes of the meeting of March 30, 1951, when these are prepared and approved, should then be forwarded to the Civil Aeronautics Board. Mr Leslie seconded this motion.

Vote being had, said resolution failed to pass, Messrs Balluder, Friendly and Leslie voting in favor and Messrs Clark, Oehlert and Shea voting against.

There being no further business, the meeting adjourned.

Andrew B. Shea
Chairman

Secretary

[fol 1242]

GOVERNMENT'S EXHIBIT 580

May 11, 1951

REGISTERED MAIL

President
Pan American World Airways, Inc.
135 East 42nd Street
New York 17, N. Y.

Dear Sir:

In your letter of April 25, 1951, you purport to terminate pursuant to paragraph 59 thereof certain provisions which relate to the Panagra-National Interchange of our "Through Flight Agreement—Supplement No. 5". This paragraph provides in part:

"59. This Supplement No. 5 shall become effective only in the event that the agreement dated May 11, 1949 between Panagra and National shall become effective. . . ."

May we point out to you that the question whether the agreement of May 11, 1949 between Panagra and National shall become effective is now pending before the Civil Aeronautics Board pursuant to its Order No. E-5282, and your action is, in any event, inappropriate at this time. We can not accept such withdrawal from Supplement No. 5.

You also filed on April 25, 1951 an "Amendment No. 1 to Application", seeking to amend the application for modification of the Board's Order Serial No. E-570 so as to eliminate reference to the provisions relating to the Panagra-National Interchange. Inasmuch as the said application now sought to be amended by you was actually a joint application which was filed in your name merely as a matter of convenience, this unilateral action is improper and cannot be recognized.

Very truly yours,

Andrew B. Shea
President
Pan American-Grace Airways, Inc.

[fol. 1244]

GOVERNMENT'S EXHIBIT 581

MEMORANDUM

To: Persons Named Below From: Vice President and General Counsel

Dept. or Div.	Various	Dept. or Div.	Legal
Location	Various	Location	New York

Date: May 11, 1951

Subject: PRESIDENCY OF PANAGRA

The annual meeting of the Board of Directors of Pan American-Grace Airways, Inc. was held on May 10, 1951. The Grace nominees to the Board of Directors nominated Mr. Andrew B. Shea, and the Pan American nominees nominated Mr. Wilbur L. Morrison. Each of the candidates received three votes.

Under these circumstances, there is legal doubt whether or not Mr. Shea continues as President of Panagra and, if he continues at all, whether as President *de jure* or *de facto*. It is important that so long as these legal doubts exist Pan American officers and employees should not do anything

which could be argued to be a recognition that Mr. Shea continues to be President.

Henry J. Friendly

[fol. 1245]

GOVERNMENT'S EXHIBIT 582

PAN AMERICAN WORLD AIRWAYS SYSTEM
Chrysler Building, 135 East 42nd Street, New York 17, N. Y.

Executive Offices

May 29, 1951

Civil Aeronautics Board,
Washington 25, D. C.

Dear Sirs:

Pan American World Airways, Inc. has received a letter dated May 11, 1951, signed by Mr. Andrew B. Shea, as President of Pan American-Grace Airways, Inc., in answer to Pan American's letter of April 25, 1951, a copy of which was attached to Amendment No. 1 to Pan American's application in Docket 3787.

At the organization meeting of the Directors of Pan American-Grace Airways, Inc. held on May 10, 1951, Mr. Shea failed of reelection as President. For this and other reasons, Pan American, and the directors of Pan American-Grace who are our nominees, do not consider that Mr. Shea is authorized to take any position on behalf of Pan American-Grace Airways, Inc. on the matter in question.

Mr. Shea's position with respect to Supplement No. 5 to the Pan American-Panagra Through Flight Agreement is completely untenable. Supplement No. 5 was to become effective only if the agreement dated May 11, 1949, between Panagra and National "shall become effective". This cannot occur, since, as a result of National's repudiation of its agreements and of the action of the Board in Order Serial E-5205, certain of the stated conditions to such effect

tiveness can no longer be met. Pan American's consent in Supplement No. 5 to any charter to National of aircraft leased by Panagra to Pan American under the Through Flight Agreement was limited to a charter containing the "specific terms and conditions" of the agreement between Panagra and National executed on May 11, 1949. Plainly these cannot now be met.

Even, however, if the foregoing were not the case, Mr. Shea's position would not be aided. By virtue of paragraph 58 of Supplement No. 5, Pan American-Grace Airways, Inc. is under obligation, in the circumstances that have now [fol. 1246] arisen, to terminate the agreement dated May 11, 1949, between itself and National on Pan American's written request. Attached hereto is a copy of a letter dated May 29, 1951, in which Pan American makes such written request.

Mr. Shea is also in error when he refers to Pan American's application in Docket No. 3787 for approval of Supplement No. 5 to the Through Flight Agreement as being "actually a joint application which was filed in your [Pan American's] name merely as a matter of convenience". The application was filed as an individual application by Pan American and not as a joint application of Pan American and Pan American-Grace for reasons of substance and not at all "merely as a matter of convenience". These reasons go back to the original application for approval of the Through Flight Agreement in Docket No. 2423. The application under Section 408 in that docket was filed solely by Pan American as lessee and not jointly by Pan American and Pan American-Grace. This was done in an effort to avoid the difficulties arising out of the steamship control of that company. Pan American-Grace is "a person controlled by a carrier other than an air carrier, or affiliated therewith within the meaning of Section 5 (S) of the Interstate Commerce Act, as amended". If it had filed the application, the latter would have had to pass the test of the second proviso of Section 408 of the Civil Aeronautics Act, namely, that the Board could not approve the application "unless it finds that the transaction proposed will promote the public interest by enabling such carrier other than an

air carrier to use aircraft to public advantage in its operation and will not restrain competition". It was recognized that Pan American-Grace could not meet this test. See S CAB 50, 55-56. For the same reason Pan American was the sole applicant in Docket No. 3787 seeking approval of Supplement No. 5 to the Through Flight Agreement.

Pan American is, therefore, in a position to amend or withdraw its application in Docket No. 3787 without any need of obtaining the assent of Pan American-Grace. It has withdrawn from its application all provisions of Supplement No. 5 relating to the alleged agreement between Pan American-Grace and National, and there is nothing before the Board on that subject.

PAN AMERICAN WORLD AIRWAYS, INC.

By /s/ J. T. TRIPPE
J. T. Trippe,
President.

[fol. 1247]

GOVERNMENT'S EXHIBIT 583

PAN AMERICAN WORLD AIRWAYS SYSTEM
Chrysler Building, 135 East 42nd Street, New York 17, N. Y.

Executive Offices

May 29, 1951

President,
Pan American-Grace Airways, Inc.
7 Hanover Square,
New York, N. Y.

Dear Sir:

Under Supplement No. 5 to the Through Flight Agreement between Pan American Airways, Inc. and Pan American-Grace Airways, Inc. dated May 11, 1949, paragraph 58, Pan American-Grace Airways, Inc. agrees that upon our

company's written request Pan American-Grace Airways, Inc. "will exercise its right of termination under paragraph 19, sub-section (2), clauses (ii), (iii), (iv), (v), and (vi)" of the agreement between Pan American-Grace Airways, Inc. and National Airlines, Inc. dated May 11, 1949.

Paragraph 19, sub-section (2), clause (iv), of the agreement between Pan American-Grace Airways, Inc. and National Airlines, Inc. dated May 11, 1949, provides that said agreement shall terminate or may be terminated prior to the expiration of its stated term at the option of Pan American-Grace Airways, Inc. "if National or W. R. Grace & Co. shall fail to perform any of their respective obligations under the agreements between them" and our company referred to in paragraph 18 (4) of said agreement.

-Paragraph 18 (4) of said agreement refers to an option agreement between our company and National Airlines, Inc. and an agreement between our company and W. R. Grace & Co., also executed under date of May 11, 1949.

On December 14, 1950, National Airlines, Inc. gave notice to our company that the said stock option agreement "is terminated and of no further force or effect".

Our nominees on the Board of Directors of Pan American-Grace Airways, Inc., and we, as half owner of Pan American-Grace Airways, Inc., have taken the position that the agreement dated May 11, 1949, between Pan American-Grace Airways, Inc. and National Airlines, Inc. cannot become effective by its terms and that it is not within the [fol 1248] power of the Grace nominees to the Board of Directors of Pan American-Grace Airways, Inc., or the officers of Pan American-Grace Airways, Inc., to make the said agreement effective. Our company also takes the position that the portions of Supplement No. 5 to the Through Flight Agreement between our company and Pan American-Grace Airways, Inc., which relate to the said agreement dated May 11, 1949, between Pan American-Grace Airways, Inc. and National Airlines, Inc. cannot become effective, for reasons stated in our letter of April 25, 1951. Apparently the Grace nominees to the Board of Directors of Pan

American-Grace Airways, Inc. take an opposite position, although the grounds for this have not yet been stated.

Because of this and without prejudice to our position as previously stated, we therefore make formal written request, pursuant to paragraph 58 of the said Supplement No. 5, that Pan American-Grace Airways, Inc. terminate its agreement dated May 11, 1949, with National Airlines as therein provided.

Notice is being given in the manner provided in the Through Flight Agreement without prejudice to any position which our company may be advised to take with respect to the status of the presidency of Pan American-Grace Airways, Inc.

Very truly yours,

PAN AMERICAN WORLD AIRWAYS, INC.

By /s/ J. T. TRIPPE
President.

GOVERNMENT'S EXHIBIT 584

CAHILL, GORDON, ZACHRY & REINDEL
(Cotton & Franklin)
Sixty-Three Wall Street
New York 5

European Office
52 Avenue Des Champs Elysees
Paris, France

John T. Cahill
Thurlow M. Gordon
Harold F. Reindel
James A. Fowler, Jr.
R. Graham Heiner
William W. Dulles
Charles F. Detmar, Jr.
John P. Ohl
Daniel James
Mathias F. Correa
George Nebolsine
Paul W. Williams
John F. Sonnett
Don B. Stookey
Neil C. Head
Fred J. Knauer
Jerrold G. Van Cise
Richard P. Loftus
Loftus E. Becker
John W. Nields

Radio and Cable Addresses
"Cottotfrank New York"
"Cottotfrank Paris"

June 6, 1951

Fredrick C. Kempner
Paris, France

Civil Aeronautics Board
Washington 25, D. C.

Dear Sirs:

This is with reference to a letter dated May 29, 1951
from Pan American World Airways, Inc., in which the

right and title of Andrew B. Shea to the office of President of Pan American-Grace Airways, Inc. is challenged.

We are enclosing a copy of an opinion from a distinguished law firm in the state of incorporation of Pan American-Grace Airways, Inc., which unequivocally upholds Mr. Shea's right and title to such office.

Cahill, Gordon, Zachry & Reindel

By John T. Cahill

Attorneys for W. R. Grace & Co.

[fol. 1250].

GOVERNMENT'S EXHIBIT 585

June 21, 1951

Dear Jay:

You mentioned to me the other day that you felt that the Panagra investment has not been too profitable and I thought you would be interested in a few figures.

Attached is a comparison of the Panagra P/L for the first four months of 1951 as compared with the first four months of 1950.

This statement is summarized as follows:

	1950	1951
Net Profit		
After Taxes	\$270,918.09	\$545,126.16

As you know, our mail pay rate case is still pending before the C.A.B. We are accruing mail pay at the rate fixed by the Board in a Show Cause Order now under revision. We are receiving mail pay at a temporary rate intended to enable us to break even.

The mail pay accrual exceeded mail pay at the temporary rate by \$381,553 in 1950 and by \$126,555 in 1951.

On the temporary rate basis net income after taxes would be as follows:

	1950		1951
Loss	(\$ 19,047	Profit	\$459,613

Should earnings continue at the same rate throughout the year net profit after taxes on the present mail pay accrual basis would be about \$1,600,000 and on the temporary rate basis would be about \$1,400,000. Earnings will [fol. 1251] not continue at that rate because of seasonal fluctuations in revenue passenger mileage. Nevertheless, I don't think it would be far out of line to say that on the temporary rate basis the company will net after taxes in the neighborhood of \$1,000,000 of which the Grace share, of course, is \$500,000.—

I have no hesitation in saying either that if the Panagra/National Interchange becomes operative from say August on Panagra's earnings for the year will increase substantially over the million dollar figure.

It might be worth mentioning on the way by that even our efforts in the National case have not been unproductive of a substantial book profit for W. R. Grace & Co. As you know we purchased in March 1949 174,000 shares of National stock at \$5.50 per share. The market price is now around \$15.50 so that we have a paper profit of \$1,740,000 in the stock. We may be forced to dispose of all or a substantial part of these holdings by C.A.B. order but I am sure that we could dispose of the entire holding in a secondary offer at a very slight discount below the market.

Sincerely yours,

J. S. Phipps, Esq.
465 East 57 Street
New York, New York

WGH
Holloway

P.S. I don't want to bore you with a lot of figures but I might mention also the facts that the initial Grace investment in Panagra was \$500,000, the present net worth of the company is approximately \$10,000,000 (increase entirely out of earnings) and since its inception the company has distributed \$1,232,500 to W. R. Grace & Co. in dividends.